STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	**:**	
On Its Own Motion	**:**	
-vs-	**:**	
Central Illinois Light Company	**:**	
d/b/a AmerenCILCO; Central	**:**	**07-0165**
Illinois Public Service Company	**:**	
d/b/a AmerenCIPS; Illinois Power	**:**	
Company d/b/a AmerenIP	**:**	
	:	
Investigation pursuant to Section	**:**	
9-250 of the Public Utilities Act of	**:**	
Electric Rate Design.	**:**	

ORDER

DATED: August 29, 2007

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I. PROCEDURAL HISTORY

In an Initiating Order entered March 2, 2007, the Illinois Commerce Commission ("Commission") initiated this proceeding to investigate, pursuant to Section 9-250 of the Illinois Public Utilities Act ("Act"), the rate design of Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP (collectively, "Ameren" the "Ameren Companies" or the "Ameren Illinois Utilities"). Attached to the Initiating Order was a Staff Report ("Staff Report") dated March 1, 2007.

Petitions for leave to intervene were filed by the Citizens Utility Board ("CUB"); MidAmerican Energy Company ("MEC"), Commonwealth Edison Company ("ComEd"); the Illinois Industrial Energy Consumers ("IIEC"); the Grain and Feed Association of Illinois, Inc. ("GFAI"); Constellation NewEnergy, Inc ("CNE"); Direct Energy Services, LLC, MidAmerican Energy Company and Peoples Energy Services Corporation, as the Coalition of Energy Suppliers ("CES"); and BlueStar Energy Services, Inc. ("BlueStar"); and were granted.

Pursuant to due notice, a prehearing conference and hearings were held at the Commission's offices in Springfield, Illinois before an Administrative Law Judge. Appearances were entered by Ameren, the Commission Staff and various Intervenors, through their respective attorneys.

Direct and rebuttal testimony and exhibits were filed by Ameren, GFAI, Staff, and CNE. CUB filed direct testimony and IIEC filed rebuttal testimony. These filings were admitted into evidence. At the conclusion of the hearings, the record was marked "Heard and Taken."

Ameren, Staff, CNE, IIEC and GFAI filed initial briefs and reply briefs. CUB filed an initial brief. A proposed order was served on all parties.

Briefs on exceptions ("BOEs") were filed by Ameren, Staff, IIEC and CUB. Reply briefs on exception ("RBOEs") were filed by Ameren, Staff, and GFAI. In their BOEs and RBOEs, parties were permitted to address the potential effects of Senate Bill 1592 ("S.B. 1592") on the issues in the instant docket. Surreply BOEs ("SRBOEs") were filed by Ameren and Staff; those filings were limited to replies to arguments in RBOEs that addressed S.B. 1592 impacts. Ameren also filed a motion to admit a late-filed exhibit relating to S.B. 1592 rate impacts; that motion was granted.

II. CURRENT RATES; INITIATING ORDER; PURPOSE OF PROCEEDING; S.B. 1592

As observed in the Initiating Order, a rate freeze was in effect from December 16, 1997 through January 1, 2007.

Starting January 2, 2007 Ameren began charging rates for bundled service developed in a two-part process. The delivery component, accounting for approximately one-third of customer bills, is based on the results of the recent delivery service proceeding in Dockets 06-0070, 06-0071 and 06-0072 (Cons.).

The supply component, which comprises the remaining two-thirds of customer bills, reflects the results of the Auction held in September 2006 pursuant to the Order in the consolidated Procurement Dockets 05-0160, 05-0161 and 05-0162 (Cons.). In that process, the prices paid to suppliers are fed into the "rate prism" to determine supply charges paid by customer classes receiving auction power. (Staff Initial Brief at 5)

Residential customers receive delivery service under the DS-1 rate and basic generation supply under the BGS-1 classification. Small non-residential customers up to 150 kW receive service under the DS-2 and BGS-2 rates. The corresponding classes for medium non-residential customers (150 kW – 1000 kW) are DS-3 and BGS-3. Lighting customers receive service under DS-5 and BGS-5. Supply costs for bundled customers in each of these classifications were determined in the BGS-FP auction.

Large non-residential customers over 1000 kW are designated as DS-4 and BGS-4. Their supply costs were determined in a separate auction segment. (Staff Initial Brief at 5-6)

As noted in the Initiating Order, the Staff Report states that within several weeks after the new Ameren rates took effect, the Commission began to receive complaints from some Ameren customers that bills were much higher than had been anticipated.

Staff compared the rates for blocks of electricity usage by residential space-heating customers under rates in existence prior to the expiration of the rate freeze with the rates that took effect on January 2, 2007. The Staff Report indicates that increases in charges to the members of the residential space-heating sub-class of each of the Ameren companies appear to be substantially higher than the average bills for residential customers as a whole.

As further stated in the Initiating Order, the calculations made by Staff serve to highlight the reasons for the hardships of which many customers within these service territories have complained. The Staff Report also provides a basis for the Commission to initiate this investigation on its own motion, under the authority conferred upon it under Section 9-250 of the Act. In this proceeding, the Commission indicated its intent to undertake a thorough review of the electric rate design for all customer classes of each of these utilities.

The Initiating Order in this proceeding gives a clear indication of the Commission's perspective on the bill impacts issue. The Initiating Order states as follows:

> IT IS THEREFORE ORDERED that an investigation is initiated under Section 9-250 of the Act into all aspects of the rate design of AmerenCILCO, AmerenCIPS, and AmerenIP, specifically including all delivery services, all electric supply services, and all other tariffed aspects of electricity services, for the reasons stated in the prefatory portion of this Order, with a view toward ordering any changes in rate design the Commission determines on the basis of the record to be necessary to make the rate structure of each of these utilities, with appropriate consideration of historical rate structures, more just and more reasonable than the rate structures in effect as of March 2, 2007.
>
> (07-0165, Initiating Order at 4)

The Commission signaled its intention not just to investigate post-2006 rates but to change those rates. It has a "view toward ordering any changes in rate design" to make post-2006 rates "more just and more reasonable." In this proceeding, the Commission is seeking a revision of Ameren's post-2006 rates to address the resulting adverse bill impacts.

In its Initiating Order, the Commission also noted that it did not intend, in this investigation, to review or consider any changes in the revenue requirements it has most recently determined for the Ameren companies (or which are to be determined by the Commission in the rehearing phase of Docket Nos. 06-0070, 06-0071, and 06-0072 (Consolidated). Additionally, the Commission did not intend to modify its conclusions (other than those related to rate design) in the Procurement Dockets.

Senate Bill 1592 was passed by both houses of the Illinois General Assembly and awaits action by the Governor. Among other things, S.B. 1592 provides rate relief to customers of Ameren. In their BOEs and RBOEs in the instant proceeding, parties were permitted to address the potential effects of S.B. 1592 on the issues in the instant docket. Parties' comments relating thereto are summarized below. In addition, Ameren filed a motion to admit a late-filed exhibit showing estimated bill impacts.

III. CUSTOMER BILL IMPACTS AFTER JANUARY 1, 2007

As noted above, residential customers are billed under both delivery services (DS-1) rates, and basic generation supply service (BGS-1) rates.

Beginning January 2, 2007, rate increases for the residential customer class were approximately 36.2% for AmerenCIPS (excluding Metro East), 56.6% for AmerenCIPS (Metro East), 40.2% for AmerenIP, and 56.8% for AmerenCILCO. (Staff Initial Brief at 8)

For average use space-heating customers, however, winter bill increases for residential customers were approximately 88% for AmerenCIPS (excluding Metro East), 135% for AmerenCIPS (Metro East), 87% for AmerenIP, and 81% for AmerenCILCO. January winter bill increases for average-use residential customers were approximately 96% for AmerenCIPS (excluding Metro East), 151% for AmerenCIPS (Metro East), 104% for AmerenIP, and 91% for AmerenCILCO. (Staff Initial Brief at 8-9) The impact for January for high use space-heating customers was even greater. These increases are due primarily to the elimination of special rates for electric space-hearing customers.

It is also noted that the increases to electric space-hearing customers were not mitigated by the Staff-proposed rate mitigation plan adopted in the Ameren Procurement Order because such customers do not constitute a separate rate class. Generally speaking, that plan limited increases for individual customer classes in the first BGS-FP auction to a maximum of 20%; however, if the overall increase in the BGS-FP auction were greater than 13.33%, the maximum increase for an individual class would be 150% of the BGS-FP auction group's average increase. The rate mitigation plan was intended to mitigate large increases in the bills of customers in any given rate class to which the results of the blended auction segment is applied, and the plan is still in effect. (Staff Initial Brief at 6)

Staff indicates that the implementation of post-2006 rates has also had varied impacts on **BGS-2/DS-2 customers**, the small non-residential customers up to 150 kW. Staff says the largest increases in the BGS-2/DS-2 class generally fall on higher-use customers. Based on Ameren's Supplemental filing, Staff noted that the impacts ranged from rate decreases for a significant number of smaller DS-2 customers to increases in excess of 100% for larger customers within the class. (Staff Initial Brief at 10-11)

Staff believes the wide range of impacts may be explained by the reduction in the number of available rates for DS-2 customers. In 2006, Staff says bundled non-residential customers of all three Ameren Companies could take advantage of numerous rate schedules for electric service. However, most of the available rates for DS-2 customers were eliminated as of January 2, 2007 and these customers were limited to a single auction-based, bundled service offering. As a result, Staff says DS-2 customers for the three Ameren Companies went from many bundled service starting points in 2006 to a common end-point in 2007.

Staff claims this combination of customers into a common rate schedule produced a variety of bill impacts, from significant decreases to significant increases. The impacts are documented in Schedule 1.02 attached to Mr. Lazare's direct testimony. The schedule shows that these customers incurred impacts ranging from bill decreases of approximately 50% to increases of more than 100%. (Staff Initial Brief at 11)

Staff says it reached three general conclusions concerning bill impacts for BGS-2/DS-2 customers. First, the impacts vary widely and actually include rate decreases for smaller customers. Second, the larger customers within the class, on average, received bigger bill increases. Third, while a significant range of impacts is inevitable given the numerous rate offerings available in 2006, the stratification appears extreme under the rate prism. In Staff's view, that some customers received bill decreases while others received extraordinary increases causes problems from a bill impacts standpoint. (Staff Initial Brief at 11)

According to Staff, while the relationship is inexact, the evidence suggests that the adverse bill impacts relate directly to the size of the monthly bills for individual customers. Staff says, for example, 60.2% of the former Rate 10 Small Use General Service customers on the AmerenIP system are currently receiving rate decreases. In contrast, only 13.3% of Rate 11 Demand Metered Space-heating customers are receiving rate decreases. (Staff Initial Brief at 12)

Staff states that on the AmerenCIPS system, 99.5% of Rate 2B General Electric Service-Secondary customers currently receive increases of 25% or less. The corresponding percentage for Rate 9T Light and Power TOU Space-heating Secondary customers is 14.8%. In Staff's view, these disparate impacts present problems. Staff argues that the operations of business, organizational and governmental customers in this class can be disrupted by sharp increases in costs such as electricity. With rates sharply rising, Staff claims bill impacts should be reasonably distributed among non-residential customers. (Staff Initial Brief at 12)

According to Staff, current rates also create bill impact issues for **larger non-residential customers**. Since January 2, 2007, Staff says a large majority of customers in classes DS-3 and DS-4 have switched from bundled service to obtaining power from Retail Electric Suppliers. Staff claims this makes their overall bill impacts difficult to discern because the cost of power provided by their alternative suppliers is not publicly known.

Issues have also arisen concerning the delivery service component of bills for DS-3 and DS-4 customers. Staff says some DS-3 and DS-4 customers who were previously on bundled rates calculated on a usage, or per-kWh, basis have incurred significant impacts in the transition to rates calculated on a demand, or kW, basis. High peak demands relative to average usage, Staff avers, can lead to significant increases over 2006 bills for customers within these delivery classes. Staff notes that more than 80% of the 155 AmerenIP customers on separate grain drying rates in 2006 have received increases in excess of 50% based on current bundled service prices. (Staff Initial Brief at 12-13)

In conclusion, Staff claims the effort to align bundled service rates with costs has produced unacceptable bill impacts in three ways. First, Staff says inordinate annual bill increases were incurred by customer groups at the subclass level. While residential electric space-heating customers are the most well-known recipients of inordinate bill increases, Staff asserts they are joined by a significant number of nonresidential customers who also encountered substantial impacts. (Staff Initial Brief at 13)

Second, Staff believes bill impacts are unequally distributed between the winter and summer seasons, where the larger winter increases have exacerbated impacts for space-heating customers whose demands increase as temperatures fall. Third, Staff claims the largest residential bill increases occur in the biggest bills of the largest consumers, which certainly is the case for residential space-heating customers.

Staff asserts the net effect of these increases is to produce individual monthly bills that fundamentally stress the finances of individual customers. Even though the current rate structure meets cost of service objectives, Staff argues that increases of the magnitudes that are being seen have created unreasonable bill impacts in both percentage and absolute dollar terms. (Staff Initial Brief at 14)

IV. RATE DESIGN PROPOSALS - INTRODUCTION

In response to the Initiating Order, Staff and Ameren offered proposals to redesign rates. Their primary proposals were intended to provide rate relief to those customers who have faced the largest increases, particularly electric space-heating customers, while ensuring that other customer groups are not unduly impacted by these rate mitigation measures. It appears the final versions of the Staff and Ameren primary proposals are essentially the same, except for the implementation date.

Staff and Ameren emphasized that the current proceeding is to be, by definition, revenue neutral so that total revenue requirement is not affected. That is, whatever relief is offered to any group of customers must be balanced by higher rates for others. Staff believes the objective of the proposed rates is to more evenly distribute the increases over 2006 rates incurred by Ameren customers as a whole. (Staff Initial Brief at 4-5)

In terms of interclass revenue allocation, Staff's rate redesign approach begins at the overall class level and then works its way down to individual rates. It includes changes in both supply and delivery charges. Staff's proposed approach does not shift revenues between the Ameren Companies; thus, the overall revenue levels received from AmerenCIPS, AmerenIP and AmerenCILCO customers would not change as a result of Staff's rate redesign proposal. (Staff Initial Brief at 14)

The Staff and Ameren primary proposals would shift some revenue responsibility from the residential (BGS-1/DS-1) class to the small non-residential (BGS-2/DS-2) class. (Staff Initial Brief at 15)

The Staff and Ameren rate redesign approaches maintain the levels of both supply and delivery service revenues collected from the DS-3/BGS-3 and DS-4/BGS-4 customer classes at current levels. There would be no shifting of class revenue responsibility between DS-3/BGS-3 and DS-4/BGS-4, or between either of these two classes and other classes.

The Staff and Ameren rate design proposals are described in some detail below. A summary of the proposals is contained in the Analysis and Conclusions section.

V. RATE DESIGN PROPOSALS FOR RESIDENTIAL (BGS-1 AND DS-1) AND SMALL NON-RESIDENTIAL (BGS-2 AND DS-2) CUSTOMERS

A. Staff Proposal

Staff's detailed proposal to redesign rates for Residential (BGS-1 and DS-1) and Small Non-residential (BGS-2 and DS-2) Customers is described below. A more succinct summary of Staff's proposal for these customers is contained in the Analysis and Conclusions below. Ameren generally agrees with Staff's proposal.

1. Residential

a. Description

Staff says the starting point for the redesign of residential bundled service rates is the winter tail block rate, which Staff claims is the key driver of winter bills for electric space-heating customers. According to Staff, the current rate design for residential customers features a winter tail block rate significantly above the various tail block rates in effect in 2006. Staff indicates that the current winter tail block rate consists of three main components: distribution, transmission and supply charges. This contrasts with the 2006 bundled rates which consisted of a single per-kWh charge. Staff states that for example, an increase of 40% in the winter tail block rate means the sum of distribution, transmission and supply charges is approximately 140% of the 2006 bundled rate charge. (Staff Initial Brief at 17)

Staff indicates that the winter tail block rates faced by space heat customers nearly quadrupled for AmerenCIPS Metro East customers and more than doubled for all Ameren customers. Under Staff's proposal, the increase in the winter tail block rate for each Ameren Company was set approximately equal to each utility's average overall increase for bundled service residential customers. Staff states that if residential customers as a whole receive average bill increases of 40%, Staff's proposed winter tail block rate is approximately 40% higher than the 2006 tail block rate. (Staff Initial Brief at 17)

A comparison of Staff's proposed winter tail block rates to the corresponding tail blocks in 2006 is as follows:

	(in $/kWh)			
	2006	Proposed	Diff.	Pct.
AmerenCIPS (MetroEast)	.02175	.02967	.0079	36.4%
AmerenCIPS (Other)				
Space-heating	.03350	.04559	.0121	36.1%
Non-Space-heating	.06988	.07727	.0074	10.6%
AmerenIP				
Space-heating	.02499	.03325	.0083	33.1%
Non-Space-heating	.05947	.07922	.0198	33.2%
AmerenCILCO	.03521	.05201	.0168	47.7%

Staff proposes four additional rate changes in addition to the proposed lower winter tail block rate. The first entails shifting revenue recovery from BGS-1/DS-1 to BGS-2/DS-2 customers. The second shifts the recovery of a share of delivery service revenues from the winter to the summer period. Third, Staff proposes increasing the summer per-kWh rate to offset the lower winter tail block rates. Fourth, Staff proposes generally increasing the first block winter rate to ensure that the target revenues for the class are met. (Staff Initial Brief at 19)

Staff also proposes to revise delivery rates. While delivery service rates currently remain the same on a year-round basis, Staff proposes to make them vary by season. Staff proposes to increase the summer per-kWh delivery charge by 0.75 cents and reduce the corresponding winter charge by approximately 0.4 cents per kWh to make the seasonal shift revenue neutral. Staff says Ameren concurs with Staff's proposed seasonal rates. (Staff Initial Brief at 19)

Staff claims its proposed shift in the recovery of delivery service revenues from the winter to summer makes sense for two reasons. First, Staff asserts it is cost justified; demand-related delivery service costs are allocated on the basis of class contributions to the system peak which occurs in the summer months. Thus, summer usage plays a key role in determining these costs. The proposed 0.75 cent increase in the summer delivery charge reflects Staff's judgment of the role that summer usage plays in shaping these costs. (Staff Initial Brief at 19-20)

Second, Staff contends that the shift in the delivery service charges from winter to summer helps address the imbalance in winter and summer supply charges resulting from Staff's proposed rate redesign. Staff claims a key feature of its proposed rates is a significant reduction in the bundled per-kWh winter tail block rate. Reflecting the full reduction solely in the supply charge, Staff says, will generate a substantial under-recovery of supply charges in winter and a large over-recovery in summer.

Staff claims its proposed shift in recovery of delivery service charges from winter to summer will reduce these seasonal under- and over-recoveries. Staff proposes to increase the supply charge for all winter usage by approximately 0.4 cents for the three Ameren Companies. In the summer, Staff says the delivery service revenue shift will permit a downward adjustment in the supply charge by 0.75 cents on a per-kWh basis. (Staff Initial Brief at 20)

According to Staff, the third step in its proposed redesign of the residential rates is to set summer per-kWh rates. The following table presents the 2006 charges, the charges currently in effect and Staff's proposed charges:

(in $/kWh)

	2006	2007 Current	Proposed
AmerenCIPS (MetroEast)	.08673	.08951	.09401
AmerenCIPS (Other)	.08186	.08951	.09401
AmerenIP			
0-300 kWh	.08315	.09421	.09891
>300 kWh	.07515	.09421	.09891
AmerenCILCO	.074479	.09581	.10061

Staff believes that its proposed charges effectively balance summer bill impacts with the need to address winter bill impacts for space-heating customers. Staff states that most residential customers incur their largest bills in summer months; Staff expresses concern that an excessive increase in those bills could trigger a further outcry against electricity rates. (Staff Initial Brief at 20-21)

According to Staff, averting this outcome requires placing limits on summer rate increases as a means to provide relief for winter space-heating customers. Therefore, Staff proposes to limit the increase in summer rates to approximately 5% over current per-kWh summer charges for each of the three utilities. Staff notes that its proposed increases over 2006 summer bills are significant, but still far below the bill increases experienced by space-heating customers this past winter. Staff believes that its proposed charges help address the problem of winter bill impacts for space-heating customers without unduly exacerbating summer bill impacts. (Staff Initial Brief at 21)

The final step in Staff's proposed redesign of residential rates entails the determination of the first block winter charges. Staff says its redesign proposal uses the winter first block rates as a balancing mechanism to ensure that the overall residential revenue target is met. Staff's proposed charges compare with first block charges for 2006 and for the rates currently in effect as follows:

(in $/kWh)

	2006	2007 Current	Proposed
AmerenCIPS (MetroEast)	.05880	.09871	.10368
AmerenCIPS (Other)	.06988	.09871	.10482
AmerenIP	.07707	.10341	.10258
AmerenCILCO	.06618	.10501	.11157

Staff argues that these results are reasonable from a ratemaking standpoint because the winter first block receives the greatest increase of all the charges being adjusted in the redesign ratemaking process. Staff says this is a necessary price to pay to limit bill impacts for winter space-heating customers and summer users. (Staff Initial Brief at 22)

Staff maintains that most residential customers incur their highest bills in the summer months and smallest bills in the winter months; thus, the increase in the winter first block charge will affect their smaller, more manageable bills. Staff claims that under its proposal, large winter users will still receive protection from the significant reduction in the tail block it proposes. (Staff Initial Brief at 22)

Staff states that current rates produce significantly higher bill increases for MetroEast residential customers than other AmerenCIPS customers (56.6% vs. 36.2%). Absent a revenue reallocation between the two areas, Staff says MetroEast residential customers will receive disproportionate bill increases. These increases were mitigated in Staff's proposal by developing a single percentage increase for both MetroEast and non-MetroEast AmerenCIPS customers. Staff believes such a rate redesign should not unduly burden the non-MetroEast area because its much larger customer base will temper the resulting increase. Under Staff's proposal both MetroEast and non-MetroEast AmerenCIPS customers will face increases of 36.1%. (Staff Initial Brief at 23)

Staff states that in 2006, for AmerenIP and the non-MetroEast AmerenCIPS, the lower winter tail block rates were only available to space-heating customers. The issue going forward is whether to maintain this separate space-heating status for the redesign of bundled service electricity rates. Staff's proposed rate redesign restores the distinction between tail block rates for space-heating and non-space-heating customers that existed in 2006 rates.

Staff proposes two separate winter tail block rates for AmerenIP and non-MetroEast AmerenCIPS customers, one for space-heating customers and another for non-space-heating customers. Staff says its two winter tail block rates for space-heating customers and non-space-heating customers were derived in the same manner as the winter tail block rates for AmerenCILCO and AmerenCIPS MetroEast. The increases in the separate tail blocks for space-heating customers and non-space-heating customers were tied to the overall increase in residential revenues over 2006 revenues. Staff states that, for example, AmerenIP space-heating and non-space-heating customers will pay different winter tail block rates but their rates will increase by the same percentage over 2006 levels. (Staff Initial Brief at 23-24)

Staff claims that this approach makes it possible to more evenly distribute the winter bill impacts between space-heating and non-space-heating customers. Without this distinction, Staff says all large winter users, with and without electric space heat, would pay the same tail block rate. Staff asserts that under that scenario, reducing the tail block rate to benefit space-heating customers could cause bills for non-space-heating customers to fall below 2006 levels which featured significantly higher tail block rates. Staff believes this result would undermine the goal of distributing post-2006 bill increases more evenly among customers. To avert that outcome, Staff argues that the distinction that existed in 2006 winter tail block rates must be maintained. (Staff Initial Brief at 24)

b. Estimated Effect of Staff Proposal

Comparisons of current rates and bill impacts to those resulting from the Staff and Ameren proposals were presented in graph form by Staff and Ameren witnesses. For example, see the attached schedules to Staff rebuttal testimony, Exhibit 2.0, filed June 12, 2007.

Using information in the record, the Commission has estimated the impact of Staff's proposal on a high use space-heating customer in the service area of CILCO, CIPS, CIPS-ME, and IP. As noted elsewhere, Ameren concurs in the Staff rate design proposal. First, the record suggests that the winter usage for such a customer is approximately 6,000 kWh during a winter month, so this was assumed.

For CILCO, the 2006 monthly customer charge was assumed to be $3.52 and usage rate for the first 930 kWh was assumed to be billed at $0.06618 cents per kWh with usage over 930 kWh billed at $0.03521. For 2007, the monthly customer charge was assumed to be $5.79; the monthly meter charge was assumed to be $3.62, the first 800 kWh was assumed to have a total variable cost of $0.10501, while usage in excess of 800 kWh was assumed to have a total variable cost of $0.0876. The Staff/Ameren proposal was assumed to have a monthly customer charge of $6.24 and a monthly meter charge of $3.62; transmission service was assumed to cost $0.00229 cents per kWh, distribution delivery service was assumed to cost $0.02179 cents per kWh, the first 800 kWh was assumed to billed at $0.08749 cents per kWh for supply and usage in excess of 800 kWh was assumed to be billed at $0.02793 for supply service. (Staff Ex. 2.0, Schedule 2.01 at 1)

For CIPS, the 2006 monthly customer charge was assumed to be $4.75 and the usage rate was assumed to be billed at $0.06988 cents per kWh for the first 400 kWh, 4.974 cents per kWh for the next 400 kWh, and 3.350 cents per kWh for all remaining usage. For 2007, the monthly customer charge was assumed to be $5.79, and the monthly meter charge was assumed to be $3.62; the first 800 kWh was assumed to have a total variable cost of $0.09871, while usage in excess of 800 kWh was assumed to have a total variable cost of $0.0813. The Staff/Ameren proposal was assumed to have a monthly customer charge of $5.79, and a monthly meter charge of $3.62, transmission service was assumed to cost $0.00229 cents per kWh, distribution delivery service was assumed to cost $0.01486 cents per kWh; the first 800 kWh was assumed to be billed at $0.08767 cents per kWh for supply and usage in excess of 800 kWh was assumed to be billed at $0.02844 for supply service. (Staff Ex. 2.0, Schedule 2.01 at 1)

For CIPS-ME the 2006 monthly customer charge was assumed to be $4.85 and the usage rate for the first 600 kWh was assumed to be billed at $0.0588 cents per kWh while usage over 600 kWh was billed at $0.02175 cents per kWh. For 2007, the monthly customer charge was assumed to be $5.79; the monthly meter charge was assumed to be $3.62; the first 800 kWh was assumed to have a total variable cost of $0.09871, while usage in excess of 800 kWh was assumed to have a total variable cost of $0.0813. The Staff/Ameren proposal was assumed to have a monthly customer charge of $5.79 and a monthly meter charge of $3.62; transmission service was assumed to cost $0.00229 cents per kWh, distribution delivery service was assumed to cost $0.01486 cents per kWh. The first 800 kWh was assumed to be billed at $0.08653 cents per kWh for supply and usage in excess of 800 kWh was assumed to be billed at $0.01252 for supply service. (Staff Ex. 2.0, Schedule 2.01 at 1)

For IP, the 2006 monthly customer charge was assumed to be $7.96 and the usage rate for the first 300 kWh was assumed to be billed at $0.07707 cents per kWh; usage between 300 kWh and 1380 kWh was assumed to be billed at $0.05947 cents per kWh, and usage in excess of 1380 kWh (the space heat block assumption) was assumed to billed at $0.02499 cents per kWh. For 2007, the monthly customer charge was assumed to be $5.79; the monthly meter charge was assumed to be $3.62; the first 800 kWh was assumed to have a total variable cost of $0.10341, while usage in excess of 800 kWh was assumed to have a total variable cost of $0.086. The Staff/Ameren proposal was assumed to have a monthly customer charge of $6.24 and a monthly meter charge of $3.62; transmission service was assumed to cost $0.00229 cents per kWh; distribution delivery service was assumed to cost $0.01998 cents per kWh. The first 800 kWh was assumed to be billed at $0.08031 cents per kWh for supply and usage in excess of 800 kWh was assumed to be billed at $0.01098 for supply service. (Staff Ex. 2.0, Schedule 2.01 at 1)

Using these assumptions, the following relative rate increases were estimated for a high-use space-heating customer with usage of 6,000 kWh per month:

	CILCO	CIPS	CIPS-ME	IP
2007 increase over 2006 bundled rates	125.4%	125.4%	224.4%	155.9%
Staff/Ameren proposal increase over 2006 bundled rates	51.5%	45.7%	56.5%	25.4%

In a late-filed exhibit submitted August 9, 2007, Ameren provided a comparison of non-summer customer bills at 2006 rates, at current 2007 rates and at rates reflecting the Ameren/Staff rate design proposals, for several non-summer usage levels. (Ameren Ex. 4.1) Exhibit 4.1 also shows the effects, at those usage levels, of Senate Bill 1592 only, and the combination of the rate design proposals and Senate Bill 1592.

2. Small Non-Residential (BGS-2/DS-2) Rate Redesign

Staff's proposed rates for BGS-2/DS-2 small non-residential customers feature a declining block in winter months for customers of all three Ameren Companies. Staff's proposed summer rates utilize a declining block rate for AmerenCIPS and flat rates for AmerenIP and AmerenCILCO. Staff's proposed break point for all declining blocks for BGS-2/DS-2 customers comes at 2,000 kWh per month. Under Staff's proposal, all usage below that level is subject to the higher monthly charge while all additional usage is charged at the lower tail block rate. Staff says its proposal to implement these declining block rates for BGS-2/DS-2 customers reflects the need to focus on bill impacts rather than solely on cost in designing rates for this docket. (Staff Initial Brief at 25-26)

Staff says its proposed rates would significantly reduce the number of smaller customers receiving a decrease from their 2006 electricity bills. Staff argues that bill decreases for some customers do not make sense when other customers are facing sizeable increases. Staff says, however, that due to the wide range of rates in effect in 2006, it is not possible to eliminate all reductions from 2006 bills. Staff also asserts that its proposed redesigned rates also address adverse bill impacts for large users within the BGS-2 class. Staff states that while its proposed rates do not entirely eliminate disproportionate increases for large customers in the class, they do reduce the absolute levels of increase these customers face. (Staff Initial Brief at 26) Staff also asserts that its proposed rate redesign accomplishes these goals despite an increase in overall supply costs for the BGS-2 class.

B. Ameren's Proposal

As noted above, Ameren and Staff ultimately agreed on a preferred approach for redesigning residential rates. For completeness, the development of Ameren's proposal is described below.

Ameren's preferred approach to addressing bill impact concerns associated with residential customers follows three primary steps. The first step involves determining an average revenue target, and resulting percentage increase, over the bundled rates customers paid in 2006. Ameren says this step allows for subsidies from BGS-2 to BGS-1, if desired. Ameren states that for each of the Ameren Companies, the percentage increase to the residential class is larger than the percentage increase to the small general service class. Thus, Ameren says equalizing increases would result in a shift from DS/BGS-1 to DS/BGS-2. Ameren indicates that full equalization would result in a $30.9 million being shifted from BGS-1 to BGS-2 (or a 14.5% increase to DS/BGS-2) for AmerenIP, $12.6 million (or 8.4% increase to DS/BGS-2) for AmerenCIPS, and $10.9 million (or a 17.5% increase to DS/BGS-2) for AmerenCILCO.

The Ameren proposal stops short of full equalization for each of the utilities. Instead, Ameren recommends limiting the percentage increase shift to 10% to achieve an equitable balance between residential and small general service classes. Ameren asserts that on one hand, the class average increases suggest that the DS/BGS-2 class could absorb additional revenue responsibility to equalize revenue between the residential and small general service classes. On the other hand, Ameren claims movement of too much revenue to the small general service customers may have the unintended consequence of creating or adding to bill impact problems for these customers. (Ameren Initial Brief at 14-15)

Ameren states that for AmerenIP, the 10% limit would result in $21.3 million of cost responsibility moved from BGS-1 to BGS-2; for AmerenCILCO, the same limit results in a $6.2 million movement from BGS-1 to BGS-2. AmerenCIPS, at 8.4%, is already under the 10% threshold and thus does not require further adjustment. (Ameren Initial Brief at 15)

The second step of Ameren's residential rate redesign approach involves shifting DS revenues between the summer and non-summer periods. Each of the Ameren Companies experiences its annual peak demand during the summer season. Ameren says some facilities are tied to an individual customer's peak demand (e.g., service line, transformer) while other facilities are tied to the collective peak demands of many customers connected to the same facilities (e.g., high voltage 34.5 kV line, distribution substations). Conceptually, Ameren suggests that summer demands drive a larger sizing of distribution facilities shared by many customers than do non-summer demands; the size of the facilities often corresponds to the cost of facilities. (Ameren Initial Brief at 15-16)

Ameren suggests that the Distribution Delivery Charge for residential customers be increased by 0.75 cents/kWh in the summer, and decreased by about 0.40 cents/kWh in the non-summer months. According to Ameren, this movement is supported in part by the conceptual cost rationale discussed above, and in part by an outcome that will help lower bills for high non-summer use customers during non-summer months. Ameren says the design is revenue neutral within the DS-1 class for each utility. That is, annual DS-1 revenue is expected to be unchanged for AmerenIP, AmerenCIPS, and AmerenCILCO. Ameren states that this step does not involve BGS rates in any way. (Ameren Initial Brief at 16)

The third step of Ameren's residential rate redesign proposal involves adjusting BGS rates to lessen bill impacts for customers with higher non-summer kWh usage. Ameren says this step contains three sub-steps. First, the "all-in" rate for customers using more than 800 kWh per month was set to a level that is no higher than the energy rate paid in 2006 plus an amount equal to the average residential increase for the particular utility. For example, rates in 2006 for AmerenCIPS-ME contained a tail block rate of 2.175 cents/kWh. The overall rate increase for all of AmerenCIPS is 35.3%. Increasing the 2006 tail block rate of 2.175 cents/kWh by 35.3% results in a tail block target for AmerenCIPS-ME of 2.944 cents/kWh.

Ameren indicates that this step requires that a separate category be continued for AmerenCIPS and AmerenIP customers that formerly took service under those utilities' special "space-heat" rates. Ameren says any premises that previously took service under the special electric heat rate would be assigned to the all-electric category for 2007 adjusted rates. The following table illustrates tail block rates in 2006, the target class average increase, and the resulting tail block price targets for each utility and subgroup.

	CILCO	CIPS-NSH	CIPS-SH	CIPS-ME	IP-NSH	IP-SH
Winter Prices						
2006 Marginal Price	$ 0.03521	$ 0.06988	$ 0.03350	$ 0.02175	$ 0.05947	$ 0.02499
Class 1&2 Avg Inc	152.4%	135.3%	135.3%	135.3%	135.3%	135.3%
Target Tail Block Rate	$ 0.05365	$ 0.09458	$ 0.04534	$ 0.02944	$ 0.08047	$ 0.03382

Note: The utility refers to the respective Ameren Illinois Utility. NSH refers to "non space-heat" or general use, and SH refers to "space-heat" or all electric.

Ameren says AmerenCILCO and AmerenCIPS-ME did not have tariffs in 2006 that required customers to qualify for a special "all electric" rate. Ameren indicates that instead, all customers were billed under the same rates. Ameren adds that for the AmerenCIPS general use customer, the 9.458 cents/kWh target value is higher than rates under the 2007 status quo. The non-summer tail block rates were not increased. In other words, Ameren says the AmerenCIPS general use tail block BGS rate was not adjusted from the 2007 status quo. (Ameren Initial Brief at 17)

Under Ameren's proposal, the summer rate was adjusted to a level 5% greater than the estimated rate that customers are expected to pay in 2007. The next step in Ameren's proposal is for the prices for non-summer use for the first 800 kWh to be increased to a level to recover the balance of the overall target revenue level for each utility. Ameren says the revenue target for BGS-1 was an under-recovery of $6.2 million for AmerenCILCO, $21.3 million for AmerenIP, and $12.6 million for AmerenCIPS. Ameren proposes to shift recovery of these costs to BGS-2. (Ameren Initial Brief at 17-18)

Ameren indicates that its preferred methodology is designed to address the significant bill impacts experienced by customers with high non-summer use, especially those who heated their homes with electricity. Ameren states that this methodology does not ensure equivalent proposed target prices for non-summer use over 800 kWh per month between the general use and all-electric groups. Under Ameren's proposal, such prices will vary among those groups and among the Ameren Companies. Ameren views developing prices equal to costs as a rate design objective; however, Ameren says setting component prices to equal costs can sometimes cause undue customer bill impacts, as has been the experience with the current rate design. Ameren believes its preferred methodology effectively addresses bill impacts, and eases the transition to fully cost-based rates at some future date. (Ameren Initial Brief at 18)

Ameren says it chose a 5% limit to summer rates in an attempt to achieve balance between providing rate relief to those impacted the most (the high non-summer use customers), while not substantially impacting other customers. Ameren states that approximately 15% of its customers heat their households with electricity. Stated another way, approximately 85% of Ameren's customers are general-use customers, and summer use is a more prominent component of total consumption. Ameren asserts that customers are expected to experience below-average increases to summer bills (comparing 2006 rates to 2007 rates under the status quo). Ameren suggests that summer rates may be increased to help lower bills for high non-summer use customers; however, applying a higher increase to 85% of the residential customer base may cause unintended bill impact concerns for those customers. (Ameren Initial Brief at 18)

Ameren indicates that it will be summer 2008 before the incremental 5% increase takes place. Under Ameren's proposal, AmerenCIPS customers who were previously served under rates applicable to portions of Henderson and Hancock counties in 2006 would receive the same pricing as AmerenCIPS-ME customers. Ameren says the 2006 rate structure of AmerenCIPS customers in Henderson and Hancock counties was similar to that of AmerenCIPS-ME and that the 2006 base prices were about 0.6 cents/kWh higher than those for AmerenCIPS-ME. (Ameren Initial Brief at 18-19)

Under Ameren's proposal, adjusted 2007 summer rates are about 5% higher than 2007 rates under the status quo. Also, adjusted 2007 non-summer rates for all-electric households are less than 2007 expected rates under the status quo. Ameren asserts that in general, the impact to general-use customers is modest. Annual increases generally fall within 7% or less compared to 2007 rates under the status quo. Ameren states that annual bills for AmerenCIPS, AmerenCIPS-ME, AmerenCILCO, and AmerenIP general-use customers are expected to increase by about 7%, 5%, 5%, and 2%, respectively. Further, Ameren indicates that average annual increase percentages for high non-summer use customers move closer to the overall DS/BGS-1 class average. (Ameren Initial Brief at 19)

Ameren proposes to adjust rates for small non-residential customers (DS and BGS-2), first, by using the same adjustment applied to DS/BGS-1. As with the residential methodology, Ameren says BGS-2 is targeted to pick up an additional $6.2

million for AmerenCILCO, $21.3 million for AmerenIP, and $12.6 million for AmerenCIPS. The second step is also similar to that Ameren used by the residential class. Ameren proposes to increase the Distribution Delivery Charge in the summer by 0.75 cents/kWh, and decrease the non-summer charge by about 0.4 cents/kWh in order to achieve a revenue neutral seasonal rate shift for each utility. (Ameren Initial Brief at 19)

Ameren says the third step differs somewhat from the residential methodology. Ameren states that the formerly applicable 2006 bundled service rates were much more numerous than those of the residential class; indicating that Ameren had end use rates for small customers, larger customers, schools, churches, grain drying, municipalities, some were demand based while others were not, some had blocked rates, and some were time-of-use rates. Ameren claims it is relatively rare for a residential customer to exceed 60,000 annual kWh of use; however, since the class of DS/BGS-2 customers includes customers with demands up to 150 kW, a customer using just under 150 kW could use 60,000 kWh in one month at 55% load factor. Ameren asserts that these factors make it very difficult, and administratively burdensome, to develop a set of non-residential rates tied to a tail block rate that customers paid in 2006. (Ameren Initial Brief at 20)

Ameren states that instead, it proposes increasing summer rates by an amount sufficient to recover the added revenue responsibility shifted from BGS-1. Non-summer prices for the first 2,000 kWh of use would be increased by an amount approximately equal to the summer increase. Prices for use over 2,000 kWh would be decreased by an amount approximately equal to the non-summer first block revenue gain. On balance, under Ameren's proposal the price adjustments recover the revenue shift from the residential class (BGS-1) for each Ameren Company. Ameren says the details of this calculation are shown on Ameren Exhibit 2.5, and was updated in Ex. 3.01. (Ameren Initial Brief at 20)

Ameren's proposal calls for the non-summer tail block rate for AmerenCIPS to be discounted by a larger amount compared to those proposed for AmerenCILCO and AmerenIP. Ameren says it was developed in an attempt to provide additional relief to customers that are expected to experience above-average bill impacts in the non-summer season. Ameren states that the credit targets customers that were eligible for the formerly applicable space-heat rates. (Ameren Initial Brief at 20)

Ameren chose a non-summer block rate at 2,000 kWh per month, with higher prices for the first 2,000 kWh per month, after examining a series of bill comparisons at various usage profiles and levels. Ameren asserts that in general, customers using less than 2,000 kWh per month are expected to receive rate decreases or relatively small rate increases. According to Ameren, implementing a non-summer block at 2,000 kWh, and charging more for the first 2,000 kWh of use, is an attempt to increase rates for customers that have either received a rate decrease or a small increase. Conversely, Ameren says implementing a declining block non-summer rate recognizes that there are several larger use customers that are already experiencing above-average increases, many of whom may have heated their business with electricity. The objective, Ameren states, is for all customers to share in a rate increase, while not causing additional hardship to customers already experiencing above average increases. (Ameren Initial Brief at 20-21)

Ameren says bill impact examples showing the expected rate changes for the various non-residential customer groupings show a consistent pattern for all of the utilities, such that: lower-use customers should expect to see increases from current 2007 rates by about 20%, higher summer-use customers should expect to see increases from current 2007 rates by about 10%, and higher non-summer use customers should expect to see minor increases (5% or less) or decreases. (Ameren Initial Brief at 21)

Ameren proposes to target **BGS-2** revenues to increase by approximately $40.2 million (for all Ameren Companies' electric customers) as a result of shifting revenue from BGS-1 to BGS-2. Next, under Ameren's proposal, Distribution Delivery Charges have been increased in the summer by 0.75 cents/kWh, and the non-summer charge has been decreased by about 0.4 cents/kWh. Ameren says this step results in a revenue neutral shift of delivery service revenue recovery from non-summer months to summer months. Third, Ameren proposes a declining block at 2,000 kWh/month and BGS-2 prices would be adjusted to recover the additional revenue responsibility target from BGS-1.

Ameren proposes to increase summer prices to a level to recover the added revenue responsibility. Ameren proposes to increase non-summer prices for the first 2,000 kWh of monthly usage and decrease for monthly usage over 2,000 kWh. Ameren says the non-summer design is largely revenue neutral within the BGS-2 class for each of the Ameren Companies. Ameren states that the pricing changes in this third step attempt to increase rates for customers that either received a rate decrease or small increase, while not causing additional hardship to customers already experiencing above average increases. (Ameren Initial Brief at 22)

In addition to updating its proposal to reflect more accurate data, Ameren says its rebuttal testimony generally redesigned non-summer BGS-2 rates to increase the price for the first 2,000 kWh of use, and decrease the price for use over 2,000 kWh. Summer prices for AmerenCILCO and AmerenIP remained the same as presented in direct testimony. Summer prices for AmerenCIPS were changed to also introduce a block at 2,000 kWh, where the price for the first block is about 0.5 cents/kWh higher than the price for the tail block. For each of the Ameren Companies, the increased prices in the summer still recover the additional revenue responsibility allocated from BGS-1. Further, Ameren says non-summer prices are still largely revenue neutral within BGS-2 for each of the Ameren Companies. An update showing the refined pricing to BGS-2 and DS-2 for each of the Ameren Companies is shown in Ameren Exhibit 3.01. (Ameren Initial Brief at 23)

Ameren states that its rebuttal proposal more aggressively attempts to bring small-use customers that previously received rate decreases or small increases closer to the class average increase. Conversely, larger customers with high non-summer use were provided with additional rate relief in Ameren's rebuttal proposal. Lower-use customers should expect to see increases from current 2007 rates by about 20%-30%, higher summer use customers should expect to see increases from current 2007 rates by about 10%-15%, and higher non-summer use customers should expect to see minor increases (5% or less) or decreases under Ameren's rebuttal proposal. A distribution of DS/BGS-2 percentage rate increases comparing 2006 bills to estimated 2007 bills, and 2006 bills to redesigned 2007 bills is provided in Ameren Exhibit 3.03. (Ameren Initial Brief at 23)

Ameren states that it and Staff are in agreement on the preferred approach to addressing bill impact concerns for the DS-1/BGS-1 and DS-2/BGS-2 rate classes. Ameren says this preferred methodology is designed to address the significant bill impacts experienced by customers with high non-summer use, especially those who heat their homes with electricity. Ameren asserts, however, that this methodology does not ensure equivalent proposed target prices for non-summer use over 800 kWh per month between the general use and all-electric groups. Ameren says such prices will vary among those groups and among the Ameren Illinois Utilities.

Ameren indicates that CNE has argued that such variations convey distorted price signals that then inevitably lead to inefficiency and less-than-optimal investment in the electric infrastructure. Ameren says that while it agrees that developing prices equal to costs is an appropriate rate design objective, under certain circumstances, resetting component prices to equal costs can sometimes cause undue rate shock, as has been the experience with the current rate design. Ameren maintains that it's and Staff's preferred methodology effectively addresses bill impacts, and eases the transition to full cost-based rates at some future date. (Ameren Reply Brief at 4-5)

C. Other Parties' Positions

Constellation NewEnergy states that Ameren proposes to create inter-class subsidies by shifting Basic Generation Service revenue responsibility from residential customers (BGS-1) to small commercial customers (BGS-2). Ameren proposes similar inter-class subsidies by shifting Delivery Services revenue responsibility from residential customers (DS-1) to small commercial customers (DS-2). CNE asserts that the term "revenue responsibility" that was chosen by Ameren is simply another way to say "subsidy." (CNE Initial Brief at 7)

Under Ameren's plan for revenue neutrality, CNE says the proposed rate redesign requires that any reduction of the revenue responsibility of a given class be offset by an increase to the revenue responsibility of another class. CNE argues that there is simply no way in this proceeding to address the residential space-heating problems without negatively impacting other customers. CNE says the net effect of this inter-class subsidy is to decrease the Ameren's BGS-1 rates and increase BGS-2 rates by roughly $50 million. In this way, CNE says Ameren would recover the Commission-authorized revenue levels for each Ameren utility – not only from residential customers but also from small commercial customers. Staff appears to endorse Ameren's inter-class subsidy proposal. (CNE Initial Brief at 7)

CNE's states that the mitigation plan approved in the Procurement Dockets is already in place, and does not treat customers in an unequal manner. (CNE Initial Brief at 5-6)

CNE requests that the Commission reject Ameren's proposed imposition of cross-subsidies in the BGS-1/DS-1 and BGS-2/DS-2 rates.

CUB recommends that the Commission abide by the following general principles if it makes any changes to Ameren's current rate design: (1) rate increases should not affect any customer group disproportionately, (2) rate increases should not affect any individual customer disproportionately, (3) rate increases should be tied to fair-cost apportionment and equity and (4) rate shock should not be aggravated by rate design changes. According to CUB, this means that residential customers should not see any additional increases in their bills because of this proceeding. (CUB Initial Brief at 2-3)

CUB recommends that the Commission, at a minimum, correct the rate design issues that lead to disproportionate impacts on residential space-heating customers, without creating further burden on other residential customers. CUB also suggests that the Commission keep in mind that these non-space-heating customers experience their highest electric usage during the summer, and so are only now beginning to experience the full impact of the rate increases. CUB states that while the concerns of heating customers were foremost on the Commission's mind when it initiated the docket, their resolution must not be at the expense of non-heating residential and small business customers. (CUB Initial Brief at 3)

CUB states that in addition to raising rates generally, the Auction dockets (Dockets, 05-0160, 05-0161, 05-0162) resulted in a smaller differential between summer and winter rates. CUB says Ameren's recent delivery service rate case has increased the customer charge. According to CUB, one customer's bill may increase disproportionately relative to another customer's, depending on electricity usage and the timing of that usage. CUB argues that these disproportionate impacts are not acceptable, and the Commission should ensure that intra-class rate impacts are proportional, such that no customer faces a rate increase significantly above that of other customers in the same rate class. (CUB Initial Brief at 3)

CUB urges the Commission to tie rate increases to fair cost apportionment and equity. That is, CUB wants the Commission to allocate the total revenue requirement among customer classes based on a fair assessment of the impact felt by each customer class. CUB claims the principles of fair cost-apportionment and equity are the central principles that should be considered in setting rates. CUB also says the Commission's changes in rate design should not aggravate the rate shock experienced by Ameren's customers. CUB avers that these customers have already experienced rate shock through the dramatic and sudden increases. According to CUB, this increase in prices places a severe hardship on consumers who have not been able to budget for their increased bills. CUB argues that because the residential class has already been hit hard by rate increases, the Commission should ensure that residential customers do not see additional rate increases. (CUB Initial Brief at 4)

D. Alternative Rate Design Proposals

1. Alternatives that Reduce or Eliminate Shift of Revenue Responsibility from BGS-1 to BGS-2

a. Ameren

Should the Commission decide to reduce or eliminate the proposed "subsidization" of BGS-1 by BGS-2, Ameren recommends similar steps to those used in Ameren's preferred approach. First, Ameren says the revenue allocation step would be adjusted (or eliminated) to reflect a reduced (or no) subsidy. Next, Ameren says the tail block non-summer rates would be adjusted upward to reflect the higher "average" increase target for each utility. Third, Ameren says the residential summer rate increase limit of 5% over 2007 status quo rates could be relaxed or eliminated. If the subsidy were to be eliminated, Ameren states that raising the residential summer increase from 2007 status quo rates by 12% for AmerenCILCO, about 15% for AmerenCIPS, and about 14% for Ameren IP would generate a fully revenue neutral design for the DS/BGS-1 rate class. Next, Ameren says BGS-2 rates could be reduced in the summer and the 0-2,000 kWh usage block in the non-summer by equal amounts. (Ameren Initial Brief at 34-35)

The results of the BGS-1 adjustments, assuming no subsidy, are shown in Ameren Exhibit 2.12. A comparison of residential bill impacts, assuming no subsidy from BGS-2, is shown in Ameren Exhibit 2.13. The results of the BGS-2 adjustment, assuming no subsidy, are shown in Ameren Exhibit 2.14. A comparison of non-residential bill impacts, assuming no subsidy to BGS-1, is shown in Ameren Exhibit 2.15. The effect of BGS revenue shifting and an estimate of the impact it may have on the monthly over/under calculation within Rider MV is shown in Ameren Exhibit 2.16. The influence of BGS-2 customer switching on the monthly over-/under-recovery mechanism within Rider MV is shown in Ameren Exhibit 2.17. According to Ameren, a rate redesign scenario with no inter-class subsidies results in relatively benign impacts on the monthly over/under calculation. (Ameren Initial Brief at 35)

As power supply contracts expire and new power supply is purchased, Ameren says the BGS adjustments could be adjusted on a uniform percentage basis. Ameren states that for example, if new power supply contracts result in a decrease of 5% in overall power supply costs for the BGS-FP group, all adjustments could be reduced by 5% as well. Ameren suggests a more comprehensive review of bill impact concerns could be undertaken during Ameren's next delivery services rate case proceedings. (Ameren Initial brief at 35)

In its reply brief, Ameren says it wants to clarify that its alternative rate redesign proposal is essentially the same as Staff's, with minor modifications. Ameren says the difference between the two methodologies is that the Ameren has included additional steps (1) adjusting tail block non-summer rates upward to reflect the higher "average" increase target for each utility, and (2) relaxing or eliminating the residential summer rate increase limit of 5% over 2007 status quo rates. Ameren indicates that the results of this analysis are presented in Ameren Exhibits 2.12-2.17, 3.07, 3.08, and are not limited as Staff suggests. (Ameren Reply Brief at 12, citing Staff Initial Brief at 32) Ameren agrees that either proposal would accomplish the same goal, to mitigate bill impact issues without inter-class subsidies.

Ameren says Staff is also correct that Staff's and Ameren's preferred methodology more aggressively addresses the most serious bill impact problem, concerning residential space-heating customers. According to Ameren, if the Commission decides to implement a proposal that eliminates revenue shifting from the BGS-1 and BGS-2 classes, either Staff's or Ameren's proposed alternative would effectively accomplish that goal. (Ameren Reply Brief at 11-12)

b. Staff

Staff also developed an alternative set of rates which is similar to Staff's recommended set of rates with one key difference. In contrast to Staff's primary proposal, the alternative features no revenue shift to the nonresidential BGS-2 class from the residential BGS-1 customers. In other words, Staff's alternative assumes no change in the total amount of supply costs currently recovered from the BGS-1 and BGS-2 customers. (Staff Initial Brief at 31)

Staff's alternative exacerbates bill impacts for residential customers but eases impacts for non-residential BGS-2/DS-2 customers. Without the benefit of a revenue shift, Staff indicates that rates must increase for residential BGS-1/DS-1 customers. Conversely, Staff says non-residential BGS-2/DS-2 would not have to incur a further rate increase associated with that revenue shift. (Staff Initial Brief at 31-32)

According to Staff, the relative merits of the Staff-proposed and Staff-alternative rate redesigns depend on the objectives for the ratemaking process. If the focus is on addressing residential bill impacts, then Staff says its primary proposal is the more effective tool. A focus more on bill increases for non-residential customers, Staff claims, would favor its alternative approach. Because the rate redesign process is revenue neutral, Staff maintains there is no way to ameliorate increases for one group of customers without disadvantaging another group.

Staff recommends that the Commission approve its primary proposal which best addresses bill impact issues for Ameren customers. Staff claims its primary proposal most aggressively addresses the most serious bill impacts problem, which is the post-2006 bill increases for residential space-heating customers. According to Staff, the size and scope of the problem quickly became apparent when current rates became effective in January 2007 and customers received bills featuring extraordinary increases in electricity costs. The rates which Staff recommends will, in Staff's view, most effectively mitigate those large increases without unduly burdening other customers. (Staff Initial Brief at 33)

2. Modification of Staff Mitigation Approach approved in Procurement Docket

a. Ameren

As explained elsewhere in this Order, the Ameren Procurement Order approved a Staff-proposed rate mitigation mechanism. Generally speaking, that plan limited increases for individual customer classes in the first BGS-FP auction to a maximum of 20%; however, if the overall increase in the BGS-FP auction were greater than 13.33%, the maximum increase for an individual class would be 150% of the BGS-FP auction group's average increase.

In the current case, Ameren examined an alternative scenario whereby Staff's 20%/150% Mitigation Approach would be applied to a subgroup for all-electric customers in the DS/BGS-1 class. (Ameren Exhibit 2.1 at 38) Ameren says the adjustment results in a rate decrease for AmerenCILCO DS/BGS-5 and a small rate increase for all other groups. For AmerenIP, Ameren says the all-electric subclass would receive a 1.162 cents/kWh credit and the rates for all other customer groups would increase to compensate for the revenue deficiency. Ameren indicates that for AmerenCIPS, the all-electric subgroup would receive a 0.083 cents/kWh credit; the all-electric subgroup for AmerenCIPS-ME would receive a 1.051 cents/kWh credit; and the DS/BGS-3 group would receive a credit of 0.225 cents/kWh.

According to Ameren, rates for residential general use, DS/BGS-2, and DS/BGS-5 would increase to compensate for the revenue deficiency caused by the credits. While these results would help to mitigate bill impacts, Ameren believes they would not produce material reductions in the bills of the residential all-electric subgroup. (Ameren Initial Brief at 12-13)

Ameren also explored lowering the constraint from 150% to 125%, while including a residential all electric residential subgroup, and concluded that this alternative does not significantly improve this result. According to Ameren, changing the mitigation constraint criteria to 125% does not provide a uniform "fix" to bill impact issues among the utilities. Ameren states that the subsidy provided to the AmerenCIPS DS/BGS-3 group – a group that has already switched more than one-third of its load to third-party suppliers – increases to 0.744 cents/kWh. Shifting additional dollars for recovery there, Ameren claims, would likely slow the pace of customer switching, and may encourage those customers to return to BGS service to take advantage of the subsidy. Conversely, Ameren says the DS/BGS-3 rates for AmerenIP and AmerenCILCO customers would be increased to subsidize other groups. Ameren believes this rate increase would likely serve to accelerate switching. (Ameren Initial Brief at 13)

According to Ameren, the outcome of Staff's Mitigation Approach also does not improve if the constraint is adjusted to 100% instead of 150%, and a residential all-electric subgroup is created. Ameren claims the DS/BGS-3 subsidy and subsidization issues were exacerbated, and relief to all electric households may not be sufficient to address bill impacts for each of the Ameren Companies. Ameren states that Staff's Mitigation Approach under this scenario would decrease rates for AmerenCIPS-ME's all electric residential customers by 2.109 cents/kWh. Ameren says this credit would apply to all kWh of usage throughout the year; however, a rate comparison of 2006 bills to current 2007 expected bills for AmerenCIPS-ME indicates that non-summer rates are expected to increase by 100% or more, while summer rates are only about 5% higher than 2006. Applying the credit uniformly to summer and non-summer use seems to Ameren to provide a credit at times where one is not necessary to provide desired bill impact relief. (Ameren Initial Brief at 14)

Ameren says the results of the modified mitigation approach analyses are instructive and may be used as a means to guide further analysis. For example, Ameren indicates that in each modified analysis, the DS/BGS-2 class was targeted to subsidize other classes. This suggests to Ameren that the transition to current 2007 rates may not be as severe for these customers. Moreover, Ameren says the "all electric" residential subclass for each of the Ameren Companies was to receive a subsidy in the 125% and 150% constraint scenarios. Ameren indicates these observations were considered as a more focused methodology was developed to provide relief to larger non-summer-use customers. (Ameren Initial Brief at 14)

In its reply brief, Ameren attempts to clarify that the intent of this discussion was to examine an alternative previously approved by the Commission as an appropriate rate mitigation mechanism and consider its possible application in this docket. Ameren agrees with Staff that this approach would not be the best approach to address the Commission's goals in this docket and would have unintended consequences. Ameren says that in addition to the undesirable results stated in Staff's Initial Brief, Ameren asserts that adjusting the mitigation constraint criteria would have negative and erratic effects on switching in the BGS-3 customer groups, which would cause negative impacts in the BGS-1 and BGS-2 customer groups. (Ameren Reply Brief at 3-4)

b. Staff

With regard to the alternatives associated with extending the Commission's rate mitigation mechanism to the subclass level, Staff says the maximums would be applied directly to residential space-heating customers, for example to limit the level of their increases. Staff claims that this approach produces inconsistent results. Staff indicates that residential space-heating customers for AmerenIP and AmerenCIPS (MetroEast) would realize rate decreases of just over one cent per kWh from current rates. Staff states that space-heating customers for AmerenCIPS (non-MetroEast) would receive decreases of less than one-tenth of a cent per kWh and AmerenCILCO space-heating customers would actually receive increases to their current rate levels. (Staff Initial Brief at 30)

Staff concludes that this would constitute an inefficient and limited means to address current bill impacts problems. Staff avers that it would only marginally improve matters for some electric space-heating customers and leave others either slightly better or worse off. Staff says that if the constraint under the Commission mitigation mechanism were reduced from 150% to 125%, the benefits would increase for all space-heating customers of the Ameren Companies. The problem, Staff contends, lies with the impacts on other classes. Staff says that on the AmerenCIPS system BGS-3 customers would receive an average rate decrease of 0.744 cents per kWh and non-MetroEast residential non-space-heating customers would face a rate increase of 0.523 cents per kWh. (Staff Initial Brief at 31)

According to Staff, lowering the constraint to 100% would produce greatly varying impacts. Staff says residential space-heating customers of both AmerenIP and AmerenCIPS (MetroEast) would incur rate decreases of more than 2 cents per kWh while AmerenCIPS (non-MetroEast) and AmerenCILCO residential space-heating customers would receive reductions greater than a cent per kWh. Staff indicates that non-residential BGS-2/DS-2 customers would receive average increases of approximately one cent per kWh while residential non-space-heating customers of AmerenCIPS (non-MetroEast) would incur increases of almost a cent per kWh. Staff believes that the magnitude of the increases for BGS-2/DS-2 customers undermines the usefulness of this rate redesign alternative. (Staff Initial Brief at 31)

E. Commission Analysis and Conclusions

It appears that Ameren and Staff are in general agreement as to how rates for residential and small nonresidential customers should be redesigned, or at least what the resulting rate levels should be. These customers are billed under both delivery services or "DS" rates, and basic generation supply service or "BGS" rates. As discussed above, the preferred proposals advanced by Ameren and Staff involve modifications to both DS and BGS rates, and would also shift a portion of the revenue responsibility from the residential (BGS-1) class to the small nonresidential (BGS-2) class. It is noted that Ameren and Staff are not in agreement over the implementation date for their proposed changes; this issue is discussed later in this order.

While neither Ameren's nor Staff's explanation of how their proposed residential rates were developed is entirely clear, it appears that the primary objective is to decrease non-summer rates, particularly for residential customers with significant winter space heating usage, without unduly impacting summer rates or rates paid by other customers in the residential and small nonresidential classes.

Summary of Proposals

With respect to the residential customer class, the delivery service rates for each of the utilities do not currently vary by season. Both Ameren and Staff propose to decrease non-summer DS-1 rates by approximately 0.40 cents/kWh and to increase summer DS-1 rates by 0.75 cents/kWh to make that change revenue neutral.

With regard to BGS or supply costs for the residential class, Ameren and Staff both suggest creating two non-summer usage blocks for the residential class, with a breakpoint of 800 kWh. Thus, the first non-summer block is for the first 800 kWh of usage per month, and the non-summer tail block is for usage over 800 kWh. They propose to design non-summer tail block usage charges such that the resulting rates would exceed 2006 bundled rate levels by approximately the same percentage as the residential class total revenues exceed 2006 levels for each utility. It appears the primary objective of this proposal to reduce the non-summer tail block usage charge for residential customers is to mitigate the increases faced by residential customers who use electricity to heat their homes in the winter.

Once the non-summer tail block BGS rate is established for each utility, both Ameren and Staff also propose to increase each utility's single summer usage rate to offset, to some extent, the lower winter tail block usage rate. Specifically, they propose increasing the summer BGS-1 usage rates so that they are 5% higher than they were in 2007.

Finally, the rates for non-summer BGS-1 first block usage, applicable to the first 800 kWh, are increased to a level that, in combination with the other rate design changes described above, recovers a target revenue level. These targets are designed to result in a revenue shortfall for the BGS-1 class equal to $6.2 million for AmerenCILCO, $21.3 million for AmerenIP and $12.6 million for AmerenCIPS. This shortfall will be shifted to and collected from the small non-residential class, BGS-2. These dollar values represent a revenue shift of approximately 10% from the BGS-1 class in the cases of AmerenCILCO and AmerenIP and 8.4% for AmerenCIPS to the BGS-2 class.

With regard to small nonresidential customers, served under BGS-2 and DS-2 tariffs, rates were redesigned in proposals by Ameren and Staff in order to accommodate the revenue shift from the residential class, and to mitigate rate impacts for large users within the BGS-2 class.

For small nonresidential delivery rates, DS-2, both Ameren and Staff propose increasing the summer distribution delivery charge by 0.75 cents/kWh and decreasing the non-summer distribution delivery charge by approximately 0.40 cents/kWh to achieve a revenue neutral seasonal rate shift for each utility.

With regard to small nonresidential basic generation service, BGS-2, the proposal is to increase the summer BGS-2 usage rate by an amount sufficient to recover the additional revenue responsibility shifted to each utility's BGS-2 class from the corresponding BGS-1 class. For AmerenCILCO and AmerenIP there is a single summer usage rate. For AmerenCIPS, there is a proposal for two usage blocks; the first block is for the first 2000 kWh of usage per month and the tail block is for usage over 2000 kWh each month. Ameren and Staff propose for AmerenCIPS' summer usage first block rate to be 0.5 cents/kWh higher than the summer usage tail block.

Ameren and Staff propose creating two usage blocks for the non-summer season for the BGS-2 class; the first block is for the first 2,000 kWh of usage per month and the tail block for usage over 2,000 kWh each month. They propose the first block usage charge to increase by the same percentage as the non-summer usage charge, for each utility. They further propose decreasing the non-summer tail block usage charge to offset the increase in the non-summer first block usage increase. Thus, the non-summer changes, taken together, are revenue neutral, and the increased summer BGS-2 usage rate alone recovers the revenue shifted to that class from the BGS-1 class, for each utility.

Ameren and Staff also offered alternative rate design plans, as described in some detail above, in the event the Commission does not adopt their primary proposals.

Analysis and Conclusions

Having reviewed the record, the Commission believes the preferred rate design proposals advanced by Ameren and Staff are appropriate and should be adopted. As noted above, they are not in agreement over the implementation date; this issue is discussed later in the order.

Their primary proposals consist of a combination of a modification to interclass revenue allocations for supply service, and several changes in intra-class rate structures in both the delivery and supply services rates. Though somewhat complicated in nature, the primary proposals are designed to provide rate relief to those customers who have faced the largest increases, particularly electric space-heating customers, while ensuring that other customer groups are not unduly impacted by these rate mitigation measures.

In this regard, these proposals are superior to the alternatives that were discussed, and they are an improvement over the status quo. As noted above, the estimated effect of the Staff and Ameren rate design proposal on high-use space-heating customers for each of the Ameren Companies is to bring their percentage increases in line with other customers in the residential class, thereby reducing their 2007 increases in the winter months by more than half as shown in Ameren Exhibit 4.1.

As explained above, one of the elements of the preferred proposals involves a shift of some revenue responsibility for supply charges from residential customers in Rate BGS-1 to small non-residential customers in Rate BGS-2. Under the circumstances, this modest movement of rates away from costs is justified; it is necessary to provide a reasonable level of relief to customers who have faced the largest increases while avoiding undue impact on other customers in the residential and small non-residential classes.

The Commission also notes that the modifications to interclass revenue allocations and intra-class rate design approved in this Order are based on and supported by the record in this docket; they are not intended to create presumptions with regard to future dockets.

VI. RATE DESIGN PROPOSALS FOR BGS-3 AND BGS-4 CUSTOMERS

As noted above, medium non-residential customers (150 kW – 1,000 kW) are served under Rates DS-3 and BGS-3. Supply costs for bundled customers in this classification were determined in the BGS-FP auction.

Large non-residential customers over 1,000 kW are designated as DS-4 and BGS-4. Their supply costs were determined in a separate auction. (Staff Initial Brief at 5-6)

As explained below, Ameren, Staff and the Grain and Feed Association support use of a “demand rate limiter” to the delivery service (“DS”) charges paid by those customers in Rates 3 and Rate 4 who consume 20% or less of their annual electricity in summer months. IIEC and Constellation New Energy oppose that proposal.

A. Ameren’s Position

Ameren asserts that the situation for customers over 150 kW up to 1,000 kW (DS-3) and those using 1,000 kW or more (DS-4) is different than that experienced by the residential and small general service classes. Ameren says approximately 90% of energy used by DS-4 customers is provided through a third-party supplier, and only about 5% energy is provided through BGS-4. Ameren also claims that BGS-4 prices are approximately 2 cents/kWh higher on average than those of BGS-1, -2, and -3. Average increases to DS-4 customers, assuming they took BGS-4, are estimated to be about 80% or more. (Ameren Initial Brief at 24)

Ameren states that customers on BGS-4 are not allowed to switch to an alternate supply until June 1, 2008, and adding costs to this group would appear to run counter to the goal of creating more just and more reasonable rates. Ameren also says that customers currently on BGS-4 had an opportunity to switch to an alternate supplier or take Real Time Pricing service from the utilities before defaulting to BGS-4 (and about 95% of customers chose not to take BGS-4). By their actions (or inaction), Ameren argues that these customers have affirmed that they are willing to pay BGS-4 rates. Thus, Ameren believes no BGS-4 rate changes are necessary. (Ameren Initial Brief at 24)

Ameren indicates that prices for BGS-3 are set based on auction bids to serve the loads of all customers under 1,000 kW of demand (BGS-1, -2, -3, and -5). Ameren says customers on BGS-3 have an opportunity to switch to service with a third-party supplier or to RTP on short notice (7-45 days). To date, Ameren says about one third of customer load eligible for BGS-3 is served by a third-party supplier. Adjusting BGS-3 rates higher, Ameren argues, would serve to accelerate a customer's incentive to switch to a third-party supplier. Ameren express concern that any revenue subsidization projected based on today's BGS-3 load would be at risk of falling back to customers targeted to receive the subsidy through the automatic over/under cost recovery mechanism within Rider MV.

Ameren asserts that moving BGS-3 rates lower would create an incentive for customers to remain on BGS-3 or switch back from a third-party supplier. If this happens, Ameren says any targeted subsidy provided would grow as customers switch back to service on BGS-3, increasing a deficit to be recovered through the over/under-recovery mechanism in Rider MV. Ameren believes neither outcome is desirable. Ameren recommends that BGS-3 rates remain competitively neutral and no new adjustments be applied as a result of this proceeding. (Ameren Initial Brief at 24-25)

Ameren says it understands that customers with lower load factors, such as grain drying and some pumping districts, have been impacted more severely than others. These customers, Ameren indicates, establish high kW demands, but have little kWh usage. Ameren states that the demand-based DS-3 and DS-4 charges can be relatively expensive to these customers.

In direct testimony, Ameren proposed that such impacts be mitigated by implementing a "demand limiter" of 2 cents/kWh within DS-3 and DS-4 tariffs for each of the utilities. Ameren's proposed demand limiter would limit the monthly total cost of the Distribution Demand Charge and Transformation Capacity Charge to 2 cents/kWh. Ameren Exhibit 2.7 provides a chart of the number of customers at various average cents/kWh intervals for DS-3 and DS-4, by utility. Ameren claims that the limiter would create a DS-3 revenue shortfall of $688,000, $304,000, and $409,000 for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. Ameren further claims that the limiter would create a DS-4 revenue shortfall of $65,000, $64,000, and $37,000 for AmerenIP, AmerenCIPS, and AmerenCILCO, respectively. (Ameren Initial Brief at 25)

Under Ameren's proposal the 2 cents/kWh limit would not be applicable to all DS-3 and DS-4 customers; rather, the limiter would only apply to those customers that limit their total kWh consumption during the four summer months to 20% or less of their annual kWh usage. Ameren asserts this would ensure that customers receiving the limiter would be those that do not make larger than normal contributions to system costs which are typically driven by summer loads. (Ameren Initial Brief at 25)

Under Ameren's proposal, the 20% usage during the summer months' criteria would be assessed for each customer following the September billing period and be applied for the entire subsequent non-summer billing periods of October through May. Ameren proposes for the limiter to apply prospectively.

New customers with less than 12 months of usage history after the September billing period would not have the limiter applied in the subsequent non-summer period, but would be re-evaluated during the following September billing period and adjusted if their usage indicated that they would have qualified. Ameren says such customers would receive a limiter credit in their October bill equal to the amount that would have been limited to 2 cents/kWh in the previous months. No reevaluation would be conducted for customers with a full 12 months of usage history at the time the September eligibility is determined, according to Ameren. (Ameren Initial Brief at 26)

Ameren proposes that the revenue shortfall for each DS class be recovered by increasing the current Distribution Delivery Charges by an equal percentage amount until the revenue shortfall is recovered. Ameren Exhibit 2.8, pages 1 and 2, shows the Distribution Delivery Charge adjustments needed to ensure revenue neutrality within the DS-3 and DS-4 class, respectively, for each Ameren Company. Ameren says the largest DS-4 adjustment is for AmerenCILCO, where for primary voltage supply service, an adjustment of $0.022 per kW is required, or $220 per month (and $2,640 per year) for a 10,000 kW customer taking primary voltage supply service. For a customer taking high voltage supply (service usually at 34.5 or 69 kV), Ameren indicates that the incremental rate adjustment of $0.005/kW would result in a $50 per month increase, or $600 per year.

For DS-3, Ameren states that the largest adjustment is again necessary for AmerenCILCO, where for primary voltage supply service, an adjustment of $0.197 per kW is required, or $98.50 per month (and $1,182 per year) for a 500 kW customer taking primary voltage supply service. For a customer taking high voltage supply (service usually at 34.5 or 69 kV) using 500 kW, Ameren says the incremental rate adjustment of $0.043/kW would result in a $21.50 per month increase, or $258 per year. In Ameren's view, the adjustment attempts to strike a balance of providing relief to customers who pay relatively high average distribution delivery charges (on a cents/kWh basis), while not burdening other customers. (Ameren Initial Brief at 26-27)

Ameren believes a 2 cents/kWh limiter is reasonable for DS-3 and DS-4 Distribution Delivery and Transformation Capacity Charges. Customers who take service under DS-2 pay a cost-based customer and meter charge. Ameren states that the Distribution Delivery Charge recovers all other costs attributed to the DS-2 class, while DS-3 and DS-4 customers pay a cost-based customer and meter charge. Ameren indicates that the Distribution Delivery and Transformation Charges recover the remaining delivery costs (service under DS-4 also includes a Reactive Demand

Charge). The Distribution Delivery Charges for DS-2 service for each of the Ameren Illinois Utilities is about 2 cents/kWh.

Ameren asserts that setting the rate limiter for DS-3 and DS-4 provides rate continuity between DS-2, DS-3 and DS-4 customer classes. Ameren says this is not meant to imply that DS-3 or DS-4 customers with low load factors should never pay more than 2 cents/kWh, rather, in this time of transition to post-2006 rates, Ameren claims these customers need time to adapt to the newer rate structure. The rate limiter, Ameren avers, would likely be revisited in future rate cases as to whether it is still needed, or should be changed to a different level. (Ameren Initial Brief a 27) Ameren says that its proposed rate re-designs result in overall revenue neutrality for the Ameren Companies.

Ameren indicates that it and GFAI entered into a Memorandum of Understanding ("MOU") between the Ameren Companies and the GFAI reflecting a joint recommendation to the Commission in support of the 2 cent/kWh limiter and the eligibility criteria of a maximum 20% of annual usage occurring in the summer season (June through September Billing Periods). Ameren says the terms contained in the MOU are consistent with the Ameren Companies' rate limiter proposal. (Ameren Initial Brief at 27)

In Ameren's view, this is not meant to imply that DS-3 or DS-4 customers with low load factors should never pay more than 2 cents/kWh rather, in this time of transition to post-2006 rates, Ameren argues that these customers need time to adapt to the newer rate structure. Ameren also asserts that because the rate limiter would not affect BGS-3 and BGS-4 prices, this proposal is competitively neutral. (Ameren Reply Brief at 5)

Ameren believes that a decision to implement this rate limiter would likely be revisited in future rate cases to determine whether it is still needed or should be changed to a different level. According to Ameren, any decision to modify the rate limiter in a future rate case must be based solely on the record in that case. For that reason, Ameren recommends that the Commission reject IIEC's suggestion that the rate limiter automatically expire at the time of the effective date for the delivery service rates approved in Ameren's next delivery service rate case. Ameren says that CNE notes with approval that the rate limiter proposal is designed to be applied in a competitively neutral manner, but argues for a vague "sunset date" for this and all of Ameren's proposed rate changes. Ameren contends there is no support in the record for the Commission to implement such an expiration date. Ameren complains that CNE does not even attempt to suggest or explain on which date such rate redesign provisions should expire. (Ameren Reply Brief at 5)

B. Staff's Position

Staff recommends that bill impacts for certain intermittent customers in the DS-3 and DS-4 classes be addressed through changes to delivery rates. Staff's proposal, termed a “rate limiter," would cap demand charges for certain intermittent users to ensure that they do not exceed the level of 2 cents per kWh consumed by customers in the class. Staff says the rate limiter would apply to those customers in the DS-3 and DS-4 classes who consume 20% or less of their annual electricity in summer months. According to Staff, the effect of this rate limiter is to prevent these intermittent users from incurring large bill increases driven by the effect of demand charges for the delivery service component of their bills. (Staff Initial Brief at 26-27)

Staff states that this proposal would impact bills for other customers in the DS-3 and DS-4 classes. Staff says this limiter is estimated to reduce the levels of delivery service revenues for the DS-3 and DS-4 classes by $1.4 million and $166 thousand, respectively. According to Staff, the $1.4 million reduction corresponds to approximately 3% of the $47.8 million in annual DS-3 revenues while the $166 thousand is approximately 0.5% of the $32.4 million in DS-4 revenues. Staff indicates that other DS-3 and DS-4 customers will experience delivery service rate increases of approximately 3% and 0.5%, respectively to cover the shortfall corresponding to the rate limiter. (Staff Initial Brief at 27)

Staff considers these increases a reasonable price to pay to address bill impacts for large intermittent users. Staff asserts that the proposed solution for these intermittent users is consistent with the principles underlying the proposed rate design solutions for BGS-1 and BGS-2 customers. In each situation, Staff says a subgroup of the class has been significantly impacted by the transition to post-2006 rates and Staff has recommended a reallocation of rates to ensure a more even distribution of the overall increase within the class. The proposal for intermittent DS-3 and DS-4 customers, Staff argues, would grant similar rate relief to this subgroup without unduly burdening remaining customers within the class. (Staff Initial Brief at 27-28)

Ameren and the Grain and Feed Association of Illinois (“GFAI”) support the proposed rate limiter. Staff indicates that IIEC expresses opposition to the rate limiter proposal. IIEC believes that there are times when a departure from cost-based rates are warranted, but argues that this should be the exception, not the rule. (Staff Initial Brief at 28)

Staff says it is IIEC’s position that grain dryers have not demonstrated that they have suffered greater bill impacts than other large customers. Staff argues that intermittent users such as grain dryers are in a unique position in the transition to post-2006 rates because their relatively large demands and intermittent loads produce high delivery costs on a per-kWh basis. Staff asserts that other customers with more balanced usage throughout the year do not face the same problem. Staff says the rate limiter is design to address this specific problem. (Staff Initial Brief at 28-29)

Staff also argues that the potential impact of the proposed rate limiter is small, especially for larger DS-4 customers. Staff says the rate limiter would entail a delivery services revenue shift of $1.4 million for DS-3 customers and a much smaller shift of $166 thousand for DS-4 customers. According to Staff, the impact for IIEC customers in the DS-4 class would be minimal. Staff indicates that CNE expresses a concern that the rate limiter proposal violates cost-causation principles and energy-efficiency objectives. According to Staff, CNE states that its objection to the proposal is mitigated by Ameren's application of DS-3 and DS-4 modifications in a competitively neutral manner. (Staff Initial Brief at 29)

To the extent that bill impacts are addressed in this proceeding, Staff asserts there will be deviation from cost principles. In Staff's view, the extraordinary nature of the response to the current rates in effect warrants the current efforts to address the full range of bill impacts even for DS-3 and DS-4 customers. (Staff Initial Brief at 29)

Staff states that other customers with more balanced usage throughout the year do not face the same problem and the rate limiter is design to address this specific problem. According to Staff, the potential impact of the proposed rate limiter is small, especially for larger DS-4 customers. (Staff Reply Brief at 10)

C. GFAI's Position

The Grain and Feed Association of Illinois asserts that its members suffered rate shock when the current rates were implemented. GFAI says that one grain elevator in the DS-4 rate class will pay 177% more in 2007 versus 2006. According to GFAI, a grain elevator in the DS-3 rate class will pay nearly 254% more in 2007 than it did in 2006. These huge increases led to GFAI exploring options and, ultimately, intervening in this docket. (GFAI Initial Brief at 1)

GFAI states that grain elevators are highly seasonal users of electricity. When farmers harvest their crop, it is delivered to a grain elevator, unloaded, dried, put into grain bins and aerated for storage. The motors used to accomplish the movement and handling of grain are electric, according to GFAI. Since harvest normally occurs in late September, October and early November, GFAI indicates the highest percentage of the annual usage by the grain handling industry is during those months. GFAI adds that in December through May, as grain is unloaded and transferred within the facility, electricity usage declines, but remains substantial.

According to GFAI, June through August defines the period of the lowest use of electricity for grain elevators. GFAI says that in the past, the industry has been able to manage its cost for electricity by adjusting equipment use to off-peak hours and seasons. Since the current delivery service rate design is indifferent to on-peak versus off-peak, GFAI says its members are telling it that they are contemplating shifting their usage to on-peak periods, which is contrary to the best interest of the system. (GFAI Initial Brief at 2)

In the DS-3 and DS-4 rates, Customer's Demand is defined as "…the highest average load in kW during any 15 minute interval during the time between regular monthly meter readings." GFAI asserts that with the type of equipment GFAI members' facilities use, there can be a short off-peak use during a non-summer month, and the delivery demand charges under the current rate design are the same as if the use was for all on-peak hours during the Ameren summer peak. GFAI claims this delivery rate demand charge is the primary cause of grain elevators seeing increases of 175% to 300% increases over prior year rates. (GFAI Initial Brief at 2-3)

GFAI contends that the “exorbitant” increases for grain elevators are primarily due to the change in rate design, specifically the Distribution Delivery Demand Charge, and to a lesser extent, the Transformation Demand Charge in the DS-3 and DS-4 rates. GFAI says previous rates took into consideration the ability of grain dryers to manage their electrical use by shifting operation to off-peak periods for most of the year and the fact that most grain drying is during off-peak hours and seasons. GFAI asserts that the previous rate design recognized the nature of GFAI’s members’ business and rewarded those for not using electricity when the delivery system was most stressed. (GFAI Initial Brief at 3)

GFAI indicates that it and Ameren have been working in the Commission-sponsored workshops to find a solution to the large rate demand component increases in non-residential DS-3 and DS-4 delivery service charges for grain facilities. Those discussions have resulted in a Memorandum of Understanding, or MOU, between GFAI and Ameren. (GFAI Initial Brief at 3)

GFAI says the MOU expresses agreement between it and Ameren regarding implementation of a $0.02/kWh demand rate limiter in the non-residential DS-3 and DS-4 rates. The demand rate limiter would limit the total monthly cost of the tariff Distribution Demand and the Transformation Capacity Charges to $0.02/kWh. GFAI says the demand limiter will only be available to customers on the DS-3 and DS-4 rate who limit their total kWh consumption during the four summer billing periods (June through September) to 20% or less of their annual kWh usage. (GFAI Initial Brief at 3-4)

According to GFAI, the proposal set forth in the MOU does not affect BGS rates. GFAI says the rate limiter does not impact BGS supply prices, nor does it impact customers other than non-residential DS-3 and DS-4 customer classes. After analyzing the data, GFAI found that the “20% or less of annual usage” would allow the rate limiter to be put into effect for approximately 82% of the sample group of its members. GFAI says another 5% to 7% may be eligible to use the rate limiter if they manage their summer usage to stay below 20%. GFAI states that the remaining members are most likely non-seasonal users like feed mills and grain export facilities. (GFAI Initial Brief at 4)

GFAI says the MOU states that the MOU is effective immediately and that, upon approval by the Commission, the rate limiter will go into effect on October 1, 2007, and the demand limiter rates will be available for qualifying DS-3 and DS-4 customers beginning with the month of November 2007. GFAI says this timetable was reached based on this docket’s current schedule. GFAI is requesting that the rate limiter be implemented as set forth in the MOU, or, in the event that the schedule in this docket is accelerated, then on such earlier date as may reasonable and practicable. According to GFAI, the MOU does not affect any other present or future proceedings; instead, it expressly provides that GFAI and Ameren are not affected by the MOU in any way in any present or future proceedings. (GFAI Initial Brief at 4-5)

According to GFAI, IIEC attempts to characterize the proposed rate limiter as a cross-subsidy. GFAI argues, however, that the proposed rate limiter neither shifts supply-related costs to delivery rates, nor does it shift delivery costs outside or among DS-3 and DS-4 delivery service classes. GFAI also disputes IIEC assertion that the proposed rate limiter shifts supply costs because it is used as a mitigation measure to transition from bundled rates, which include supply costs. GFAI argues that the delivery rate increase for this grain dryer is over 520%; however, when including supply costs, the increase is at a lesser, but hefty, 177%. (GFAI Initial Brief at 6)

GFAI maintains that the rate limiter proposal is not a cross-subsidy and that it does not shift supply costs. Instead, GFAI believes it is a reasonable measure to address the rate shock experienced by GFAI members. (GFAI Initial Brief at 6; Reply Brief at 4; RBOE at 1-2)

D. IIEC's Position

IIEC opposes the proposed rate limiter. (IIEC Initial Brief at 5-8; BOE at 1-3) According to IIEC, since the initial delivery service rate case proceedings in 1999 and continuing through subsequent delivery service rate determinations, the Commission has generally avoided the introduction of cross-subsidies in delivery service rates and the shift of supply costs into delivery service rates. IIEC says the Commission has previously determined that delivery service rates should be cost based and relate to delivery service, in general, and specifically to the services and facilities the utility uses to provide such service. The Commission, IIEC asserts, has rejected proposals that would have had the effect of subsidizing supply costs for certain customers through charges to delivery service customers.

IIEC says the Commission has recognized in prior delivery service rate cases that rates should be designed so as to reflect cost of service. According to IIEC, while the Commission recognized that consideration of rate impact may be appropriate in certain circumstances, it suggested that its general approach in that case would be to ensure that one customer class did not subsidize the delivery service rates of another. (IIEC Initial Brief at 3-4; Reply Brief at 1)

IIEC states that while there can be circumstances that might warrant a departure from cost causation principles, in the context of past delivery service cases, such departures are exceptional. Cross-subsidies, IIEC argues, once created, have the potential to gain constituents over time. IIEC claims their opposition to loss of a subsidy makes it difficult to reverse or remove subsidies going forward. IIEC suggests circumstances may ultimately be deemed to justify, in the Commission's opinion, modifications of Ameren's rate design to address legitimate concerns about the bill impacts on residential space-heating customers. In IIEC's view, circumstances do not warrant or justify the changes to Ameren DS-4 rates proposed in this proceeding. (IIEC Initial Brief at 5)

To the extent the Commission deems it appropriate to deviate from the delivery service ratemaking principles it has previously established, IIEC wants the Commission to make clear that its departure from cost causation principles is not intended to be permanent or precedential, and the Commission should specify a sunset date for any transitional subsidy. (IIEC Initial Brief at 5; Reply Brief at 1-2, 4-5; IIEC BOE at 1-3)

IIEC says the rate limiter proposed by Ameren and GFA has the effect of shifting supply related costs into delivery rates. According to IIEC, the proposal uses delivery service rates to mitigate the total bill impact of moving from bundled rates (rates reflecting both supply and delivery costs) to unbundled rates, where supply and delivery costs are separated. IIEC says Ameren's unbundled supply costs after January 2, 2007 are significantly higher than the supply costs embedded in the previously available bundled rates. IIEC argues that by definition, any plan that attempts to mitigate total bill impacts for grain drying customers will shift some of the supply costs of customers benefiting from the plan, to customers who do not benefit from the plan. (IIEC Initial Brief at 6)

IIEC asserts that supply costs appear to be the primary driver in the proposals to modify DS-3 and DS-4 delivery service rates to mitigate bill impacts for grain drying customers. IIEC believes there is no reason to believe that grain drying customers face any greater increase in delivery service charges than other large non-residential customers. IIEC refutes the claim that increases in delivery service rates are significantly higher for grain drying customers than the delivery service rates for other non-residential delivery service customers. IIEC asserts that some large non-residential customers, other than grain drying customers, received delivery service rate increases of over 200%. IIEC says that these customers, who include members of IIEC, have not asked that other customer groups be compelled to subsidize either their higher delivery service rates or their increased supply costs. (IIEC Initial Brief at 6-7)

IIEC claims there is no evidence of the total bill impact faced by other DS-3 and DS-4 customers as a result of the movement from bundled rates to unbundled rates. In IIEC's view, if total bill impact is to be the test for modification of DS-3 and DS-4 rates to address the concerns of grain drying customers, fairness compels the Commission to consider total bill impacts on other DS-3 and DS-4 customers before imposing additional costs upon them. IIEC argues that the Commission cannot make a reasoned determination that the proposed grain dryers' subsidy will not create unacceptable total bill impacts on other DS-3 or DS-4 customers. IIEC believes it would be inequitable and arbitrary to impose additional costs upon these customers. (IIEC Initial Brief at 7)

IIEC supports the Commission's policies of basing delivery service rates exclusively on delivery service costs. IIEC asserts that because the rate limiter proposal of Ameren and GFAI would violate those principles, the proposal be rejected.

However, if the Commission determines it will adopt the proposal, IIEC says it should indicate clearly that it is an exception to the Commission's traditional policy and that it will have a limited life span, not to exceed the effective date for the delivery service rates approved in Ameren's next delivery service rate case. (IIEC Initial Brief at 7)

In its reply brief, IIEC indicates that it disagrees with GFAI's suggestion that the rate limiter does not result in the creation of a subsidy or a shift of supply costs from one customer group to another. IIEC says Ameren itself has argued there will be a revenue shortfall as a result of the application of the limiter and that this shortfall will have to be collected from other customers. IIEC argues that by definition, this creates a subsidy. Although the rate limiter itself does not shift supply costs, IIEC asserts that the impact on bills that allegedly warrant the limiter is supply, not delivery related.

According to IIEC, GFAI's own analysis of the impact of the transition from bundled to unbundled rates is based on a comparison of certain GFAI members' bills for unbundled delivery and unbundled supply service combined, to their bills under the bundled rate structure. IIEC asserts that the GFAI analysis incorporates the results of Ameren's on-line rate estimator or calculator which compares pre-January 2007 bundled rates to unbundled rates. IIEC claims the delivery service charges appear to be a substantially smaller part of the sample GFAI members' bill than the commodity portion. IIEC says the limiter reduces the total bill impact for eligible customers. IIEC asserts that its existence represents an attempt to offset increases in supply costs included in the customer's total bill. In so doing, IIEC maintains that it shifts those costs to other customers. (IIEC Reply Brief at 5-6)

E. CNE's Position

CNE states that the vast majority of larger non-residential customers, excluding low-usage customers like grain dryers, have switched from Ameren's service to third-party suppliers such as CNE. CNE indicates that roughly 90% of DS-4 energy consumption is served by RESs and that roughly one-third of the BGS-3 eligible customer load has switched to RES service. Given that most of the BGS-3 and BGS-4 eligible load has switched to RES service, CNE says Ameren has refrained from making any rate adjustments due to their perception that any redesign would only serve to accelerate customers' incentives to switch to RES service (if rates are adjusted upward) or create incentives for customers to remain with Ameren's BGS products (if rates are adjusted downward). CNE agrees that there is no need to recommend changes to the rate design for larger non-residential customers. (CNE Initial Brief at 8)

CNE states that the demand-based charges for some DS-3 customers (over 150 kW to 1 MW) and DS-4 (over 1 MW) can be relatively expensive since they establish high kW demands but have little kWh usage. As a result, Ameren has proposed to mitigate rates for these larger low-usage customers, such as grain dryers. CNE says that under Ameren's proposal, a rate limiter would limit the monthly total cost of the Distribution Demand Charge and Transformation Capacity Charge to 2 cents/kWh for DS-3 and DS-4 customers. (CNE Initial Brief at 8-9)

CNE argues that from a policy perspective, Ameren's rate limiter proposal violates cost-causation principles and energy-efficiency objectives. Citing IIEC rebuttal testimony, CNE suggests that the rate limiter proposal shift supply costs because they use delivery service rates as a mitigation measure to transition from bundled service rates, which include supply, delivery and other associated costs, to an unbundled structure where supply and delivery charges are separated. Again, citing IIEC testimony, CNE claims that the GFAI and Ameren proposals seek to collect additional revenues from certain delivery service customers to offset the combined bill impact of both supply and delivery charges of other customers. (CNE Initial Brief at 9; Reply Brief at 2-3, 5)

In CNE's view, the Commission should avoid non-cost based incentives for customers to remain with Ameren or switch to a RES. Given the level of customer switching, CNE says the Commission should refrain from artificially increasing BGS-3 and BGS-4 rates because these commodity subsidies will merely serve as incentives for the targeted customer classes to switch to RESs. As customers switch away from Ameren, CNE claims any projected revenue subsidization projected would be at risk of falling back to customers that remain with Ameren and are targeted to receive the subsidy through the automatic over/under cost recovery mechanism within Rider MV. CNE believes this would be a step in the opposite direction of proper ratemaking. (CNE Initial Brief at 9-10; Reply Brief at 5-6)

CNE indicates that some of its reticence is mitigated by Ameren's application of the DS-3 and DS-4 rate limiter in a competitively neutral manner. CNE says that Ameren will be indifferent to customers' supply choices as Ameren will collect the same amount of revenues from the same customers, regardless of whether they are served on Ameren's BGS-3 / BGS-4 or by a RES. Having stated the above, however, CNE recommends that the Commission resist any such approach that would impose indefinite cross-subsidies into retail rate design. (CNE Initial Brief at 10; Reply Brief at 6)

CNE also recommends that the Commission impose a sunset date for any transitional subsidies, especially if the Commission approves Ameren's rate limiter for larger DS-3 and DS-4 non-residential customers. (CNE Initial Brief at 5)

F. Commission Analysis and Conclusions

As explained above, Ameren, Staff and the Grain and Feed Association of Illinois support use of a "demand rate limiter" to the delivery service ("DS") charges paid by those customers in Rate 3 (150 kW to 1,000 kW) and Rate 4 (1,000 kW or more) who consume 20% or less of their annual electricity in summer months. The limiter would cap demand charges for certain intermittent users to ensure that they do not exceed the level of 2 cents per kWh consumed by customers in the class.

According to Staff, the effect of this rate limiter is to prevent these intermittent users from incurring large bill increases driven by the effect of demand charges in the delivery service component of their bills. Without the limiter, some of these customers, including grain dryers, face disproportionately large increases in their bills due to their relatively low load factor.

As designed, the proposed rate limiter is intended to reduce the levels of delivery service revenues for customers on DS-3 and DS-4 by $1.4 million and $166,000, respectively. According to Staff, the $1.4 million reduction corresponds to approximately 3% of the $47.8 million in annual DS-3 revenues while the $166,000 is approximately 0.5% of the $32.4 million in DS-4 revenues.

The shortfall in each of those two classes would be shifted on an intra-class basis to other customers in the respective classes. No revenue responsibility would be shifted between DS-3 and DS-4. Staff calculates that other DS-3 and DS-4 customers will experience delivery service rate increases of approximately 3% and 0.5%, respectively to cover the shortfall arising from the rate limiter.

IIEC and Constellation New Energy oppose the above proposal. They complain that the proposal is an unwarranted movement away from cost-based rates, has the effect of shifting supply-related costs into delivery rates, and is unnecessary.

Having reviewed the record, the Commission finds that the above-described redesign proposal is reasonable and should be adopted. It provides transitional relief to ratepayers who face the largest increases, while ensuring that other customer groups are not unduly impacted by these rate mitigation measures.

Furthermore, the rate limiter proposal does not reallocate revenue responsibility between Rates 3 and 4; thus, in addition to allowing rates to track costs on an interclass basis, the proposal avoids shifting revenues between two customer classes that are supplied by different auction products and have different switching environments.

All things considered, the rate limiter proposal represents a reasonable alternative and an improvement over the status quo, and it is approved, with an effective date as provided in the MOU between Ameren and GFAI.

The Commission also observes that the modifications to intra-class rate design approved in this Order are in response to the unusual circumstances outlined in the record in this docket. Such approvals are not intended to create any presumptions in future dockets or to signal an intention to disregard cost of service when setting rates. With regard to the length of time for which these rate design changes should remain in place, the Commission believes this question is one more appropriately considered in future proceedings based on the record in those proceedings. Accordingly, the Commission will not specify a sunset date for those changes at this time.

VII. IMPLEMENTATION DATE FOR RATE DESIGN CHANGES

As explained below, Ameren argues that the rate design changes approved in this docket should not be implemented prior to January, 2008. (Ameren BOE at 2-7, 10-11) Among other things, Ameren claims an earlier implementation date as described in a two-step proposal advanced by Staff would result in an under-recovery of revenues that would have to be collected later through Rider MV, thereby increasing rates paid in early 2008 in a counterproductive manner.

Staff proposes a two-step process. On October 1, 2007, the rate design changes necessary to revise per-kWh charges would be reflected in revisions to supply ("BGS") charges. Beginning January 1, 2008, the changes proposed for delivery service ("DS") charges would become effective and supply charges would be adjusted accordingly to ensure that the overall per-kWh charges remain the same.

A. Ameren's Position

Ameren states that if changes are implemented prior to January, 2008, several rate design scenarios involving intra-class shifts of revenue responsibility from the non-summer billing periods to the summer billing periods would result in an under-recovery of revenue. Each of the Ameren Companies' rates differ from summer to winter, and, Ameren says, are carefully designed to bring in revenue amounts based on customers' expected seasonal usage. Ameren asserts that seasonally differentiated rate designs inherently divide and allocate costs among defined time periods that would otherwise be collected uniformly regardless of the time of year.

Ameren claims implementation of certain of the intra-class seasonal revenue shift scenarios prior to 2008 would result in the under-recovery of delivery service rate revenue in 2007. According to Ameren, once the summer rate period has passed, any shift of costs away from the non-summer rates to the summer rates detrimentally affects the Ameren Companies' ability to collect its costs for the entire year. In Ameren's view, a mid-year inter-seasonal rate reallocation results in unreasonable rates because it either promotes under-recovery or over-recovery of revenue. Ameren argues that a shift away from the non-summer months would result in under-recovery. Absent any special accounting treatment that would accrue deferrals of the difference between the status quo (i.e., January 2, 2007) rates and any of these scenarios, Ameren contends, there would be a foregoing of Commission-authorized 2007 delivery service revenue. (Ameren Initial Brief at 6-7)

Ameren claims it would under-recover $16.5 million in BGS revenues if Staff's October 1 proposal were adopted. If the changes intended for DS rates were instead made to BGS rates for the period from October through December, Ameren says the DS revenue deficit for each of those months ($5.2 million in October, $4.8 million in November, and $6.5 million in December) would instead shift to a BGS under-recovery that would roll forward to recovery in 2008. Ameren claims such a proposal is contradictory to the Commission's stated goal of revenue neutrality. In Ameren's view, the Commission must take annual revenue requirement concerns into account when determining the appropriate date to implement any rate design changes, in order to maintain revenue neutrality in this docket.

Ameren argues that any intra-class delivery service rate design changes arising from this docket that would: a) result in a shift in revenues between the Ameren Illinois Utilities' tariff billing seasons (i.e., summer [June through September] and non-summer [October through May]) and b) be effectuated prior to January 2008 could likely produce delivery service revenues during 2007 that vary significantly from those ordered by the Commission and result in rates of return significantly different than those ordered by the Commission in Dockets 05-0160, -0161, -0162 (Cons.), and 06-0070, -0071, and -0072 (Cons.). (Ameren Initial Brief at 7; Reply Brief at 7-8)

In addition to resolving the revenue neutrality issue, Ameren argues that allowing a full year of the new rate structure would provide the added benefit of developing an entire year of data related to the operation and customer impacts caused by the new rates. Ameren claims this data would allow parties and the Commission access to data from an entire 12-month period in order to determine how to address future challenges in an evolving restructured environment. (Ameren Initial Brief at 8)

Ameren states that January 2, 2007 through January 1, 2008 represents the first 12-month period for which the Ameren Illinois Utilities would have an opportunity to earn the rates of return granted in the latest delivery services rate case dockets. Ameren claims it has responsibly budgeted in accordance with these expected rates of return. Ameren says these budgets are used to manage Ameren's annual capital expenditures, operations and maintenance expenses, and, also affect Ameren's earnings guidance provided to the investment community. (Ameren Initial Brief at 29-30)

Ameren states that the revenue impact of changing DS and BGS rates depends on when such changes are implemented. If the changes are implemented on January 1, 2008, Ameren says the impact on annual revenue should be negligible. If changes are implemented on October 1, 2007, Ameren claims the price reductions proposed for non-summer use will reduce Ameren's revenue. Ameren asserts that if delivery services rate changes are implemented starting October 1, 2007, the loss of revenue versus the status quo will reach an expected $16.9 million. Ameren argues that shifting costs in mid-year back to a season that has already occurred essentially deprives Ameren of any opportunity to recover its costs for the entire year. (Ameren Initial Brief at 30)

According to Ameren, the rate redesign changes for DS/BGS-1 and DS/BGS-2 should be implemented on January 1, 2008, unless other mechanisms are employed to hold the Ameren Illinois Utilities revenue neutral. Ameren suggests that the rate limiter changes to DS-3 and DS-4 could be implemented anytime shortly after the Order in this case since the proposal does not involve shifting revenue from one season to another, and thus can be effectuated on a revenue neutral basis. (Ameren Initial Brief at 30)

Ameren says Staff acknowledges that an October implementation will result in revenue deficiency for 2007 if DS rates are adjusted at that time. To address this problem, Ameren indicates that Staff proposes a two-step method whereby the full effect of DS/BGS-1 and DS/BGS-2 rate changes are implemented through BGS rate design changes on October 1, 2007 (step 1). In the second step, delivery services rate design changes would become effective on January 1, 2008, and BGS prices would be readjusted by an offsetting amount. (Ameren Initial Brief at 31)

Ameren expresses concern because it has been negotiating with state legislators and other parties regarding the level of rate increases experienced by customers. Ameren says rate relief programs have been part of those negotiations, and much emphasis has been on large winter-use residential customers that experienced the sharpest increases under rates that began on January 2, 2007. Ameren suggests that if it implements one or more of these negotiated rate relief programs, increases to customers that heat their households with electricity will be substantially mitigated this autumn. Implementing rate redesign changes on top of a special negotiated program, Ameren avers, could result in rates and bills below those paid by customers in 2006.

Ameren says if such special programs were to expire at the end of 2007, customers may perceive that they have received a rate increase starting with their January bills. Ameren asserts that if it has implemented a special negotiated program providing substantial benefits to residential high non-summer use customers prior to the final Order in this docket, rate redesign implementation should be withheld until January 1, 2008. (Ameren Initial Brief at 31-32; Reply Brief at 8)

Ameren also argues that acceptance of Staff's proposal must be accompanied with an adequate means to address the impact on the over-/under-recovery mechanism within Rider MV and an acknowledgment that further decreasing BGS rates for October through December 2007 will create an under-recovery deficit not designed to be offset with rate redesign adjustments to future BGS rates. Ameren states that shifting BGS revenue recovery from the non-summer to summer period will result in a mismatch with the underlying supply cost paid to suppliers.

Without a modified over-/under-recovery mechanism in place, Ameren claims the adjustment value would become volatile and undermine the efforts made in this docket to reduce significant rate impacts felt by customers. Ameren also asserts that further reducing BGS prices by an amount equivalent to the non-summer DS rate change (about 0.4 cents/kWh) would create an additional estimated deficit of about $16.5 million in BGS revenue that must be recovered in the future. Ameren says this additional amount would be recovered through the over/under calculation within Rider MV, and would raise effective rates in 2008, muting some of the intended benefits of rate redesign. (Ameren Initial Brief at 32)

According to Ameren, Staff's initial brief fails to recognize the Commission's approval of changes to Rider MV, in arguing for changes to minimize fluctuations in Rider MVA adjustment levels passed on to ratepayers. Ameren maintains that the changes to Rider MV allow for amortization of adjustments for up to 12 months, and would include interest at the rate established by the Commission in accordance with 83 Illinois Administrative Code 280.70(e)(1). (Ameren Reply Brief at 9)

Ameren argues that because the Commission has approved changes to Rider MV in Dockets 07-0350, 07-0351 and 07-0352, examining further changes to the Rider MVA mechanism is no longer necessary. According to Ameren, "these approved changes to Rider MV would not properly address the estimated $16.5 million BGS revenue deficit that would be created by implementing [Staff's] proposed rate redesign changes on October 1, 2007, through changes solely to BGS prices, further exacerbated by upcoming legislative rate relief." (*Id*.)

Ameren asserts that the method whereby revenue is artificially adjusted up or down by fixed factors assumes that over the course of one year, application of the price changes will result in no net change to expected annual revenue. Ameren says the monthly BGS price adjustment factors would not correct this additional revenue deficit, leaving the under-recovered costs to begin recovery starting in January 2008. In Ameren's view, rate redesign implementation should be withheld until January 1, 2008. Ameren says it will inform the Commission of any legislative action or special negotiated program providing substantial benefits to residential high non-summer use customers carried out prior to the final Order in this docket, and will ask the Commission to take administrative notice of such events. (Ameren Reply Brief at 9-10)

B. Staff's Position

Staff believes that the new BGS rates should be implemented on October 1, 2007. Staff argues that this date is reasonable because winter, or non-summer, rates take effect on October 1st. Staff says there is always the chance that cold weather could arrive early this year and cause usage by electric space-heating customers to climb. If current rates remain in effect this autumn, Staff is concerned that the kinds of bill impacts problems that occurred in January 2007 could reappear. (Staff Initial Brief at 33)

Staff asserts that an October 1, 2007 implementation date does raise potential revenue requirement issues. Staff's recommended rate redesign proposal features lower winter delivery service charges than current rates. As a result, Staff says the Ameren Companies would encounter a delivery service revenue shortfall for 2007, violating the revenue neutrality provisions of the current proceeding. (Staff Initial Brief at 33-34)

Staff proposes to address this revenue requirement issue by implementing its rate redesign in two steps. In the first step beginning October 1, 2007, the rate changes necessary to redesign revised per-kWh charges would be solely reflected in revisions to supply charges. In the second step beginning January 1, 2008, the changes proposed for delivery service charges would become effective and supply charges would be adjusted accordingly to ensure that the overall per-kWh charges remain the same. Staff claims that the delay in revising delivery service charges until January 1, 2008 will prevent the Ameren Companies from incurring a delivery service revenue requirement shortfall. (Staff Initial Brief at 34)

Staff indicates that Ameren presents two proposals concerning the implementation date, both of which Staff finds problematic. The first proposal would be to delay implementation until January 1, 2008. The second proposal would entail an October 1, 2007 implementation date. With respect to Ameren's first proposal, Staff believes a January 1, 2008 implementation date would run the risk of another bill impact crisis for Ameren customers. If the Ameren territories experience an early chill this fall, Staff is concerned that electricity use by space-heating customers could rise and electric bills could soar as they did at the beginning of this year. Staff maintains that an October 1, 2007 implementation date is essential to avoid the possibility of this occurrence. (Staff Initial Brief at 34-35)

Staff recommends that the Commission approve its two-step approach in order to implement the proposed rate changes. In the first step, on October 1, 2007, the full effect of the proposed rate redesign should be reflected in changes to supply charges only. In the second step, on January 1, 2008, seasonally-based delivery charges would be placed into effect and supply charges will be adjusted accordingly so that bundled service ratepayers will see no change in the overall level of per-kWh charges on their bills.

Staff argues that its approach offers the advantage of producing no delivery service revenue shortfall for the Ameren Companies and would thereby obviate the need to establish a regulatory asset. Staff says any under (or over) recovery of supply costs resulting from revisions to supply charges would be recovered (or refunded) to ratepayers through the Market Value Adjustment ("MVA") under Rider MV. Thus, Staff claims, any supply revenue shortfall would self-correct under Rider MV. (Staff Initial Brief at 36)

Staff says its recommended rates incorporate significant changes to all supply charges applicable to customers in the BGS-1 and BGS-2 classes. Staff asserts that since supplier payments will not change after the implementation of new supply charges, the issue will arise concerning the relationship between the supply charges collected from ratepayers and the supply costs paid to suppliers not only from month to month but also from season to season. If these relationships were to fluctuate significantly from month to month, Staff says the potential exists to cause significant swings in the Rider MVA adjustment levels that are passed on to ratepayers. According to Staff, that can cause fluctuations in overall electricity bills which could confuse ratepayers and impede their efforts to forecast monthly electricity costs. (Staff Initial Brief at 36-37)

In Staff's view, the objective should be to develop a Rider MVA mechanism that minimizes to the extent possible the fluctuations in monthly MVA adjustment levels. Staff says that is a matter which Staff will explore further with the Ameren Companies after the current docket is completed. (Staff Initial Brief at 37)

In its reply brief, Staff argues that it is not necessary for the Commission to develop “an entire year of data” on current rates to conclude that they are severely flawed and need to be replaced. Staff says the extent of the problems became eminently clear in the first few months of this year when electric space-heating customers received extraordinary bill increases. In Staff’s view, the one essential task is for the Commission to take all necessary steps today to prevent Ameren customers from experiencing these kinds of bill impacts again. (Staff Reply Brief at 5-6)

As for Ameren’s references to negotiations with state legislators and other parties, Staff does not believe that constitutes a sufficient basis to govern the Commission’s decisions in this docket. Staff argues there is no evidence in this record to indicate what ratemaking changes are contained in the proposals being negotiated. As such, Staff claims there is no evidentiary basis to consider Ameren’s assertions in this regard. (Staff Reply Brief at 6)

Staff says Ameren complains that if Staff’s proposal for an October 1st implementation date is accepted, it must be accompanied by “an adequate means to address the impact on the over-/under-recovery mechanism within Rider MV." Staff says it does not understand Ameren’s complaint. Staff asserts that if there is a potential shortfall, Ameren has the means to address it through its Rider MV filings. Staff urges the Commission to focus not on Rider MV but on redesigning rates to address the disparity in bill impacts arising from current rates. (Staff Reply Brief at 6)

C. BOEs; Effect of Senate Bill 1592

In its BOE, Ameren notes that Senate Bill 1592 had passed both houses of the Illinois General Assembly and was awaiting action by the Governor.

Ameren estimates that its customers will receive $488 million in rate relief during the next three years, and that credits to residential customers are primarily concentrated for distribution for the latter part of 2007, totaling $213 million. Over half of the allotment of funds established for Ameren Illinois customers will be distributed prior to the end of 2007. (BOE at 3; BOE Ex. A at 1-2) All-electric customers will receive both fixed and variable credits; however, the variable credits expire at the end of 2007.

In a late-filed exhibit submitted August 9, 2007, Ameren provided updated data intended to show what impacts the combined effect of the legislative rate relief and a rate design implementation date of October 1, 2007 would have on customer bills. (Ameren BOE at 2-6; Ameren Ex. 4.1) As noted above, Exhibit 4.1 shows the bill impacts, at several non-summer usage levels, of the Staff/Ameren redesign proposal only, Senate Bill 1592 only, and the combination of the two. Additional information about the effects of Senate Bill 1592 is contained in Appendix A to Ameren’s BOE.

The table below contains information from Ameren Exhibit 4.1. Non-summer kWh use is assumed to be 2,000 for a small apartment, 2,500 for a medium apartment, 4,000 for a single-family home, and 6,000 for a large-single family home. The percentages associated with the dollar amounts identified in the table below are shown in Exhibit 4.1

	2006 to 2007 % Increase	Estimated change in bill due to Rate Redesign	Estimated change in bill due to Legislation	Estimated change in bill due to Both	% Change from 2006 reflecting Both
AmerenCIPS					
Small Apartment	100.4%	($38)	($42)	($80)	14.2%
Medium Apartment	106.8%	($56)	($62)	($118)	-0.7%
Single Family	118.1%	($109)	($122)	($231)	-26.7%
Large Single Family	125.4%	($181)	($202)	($383)	-43.4%
AmerenCIPS-Metro East					
Small Apartment	163.4%	($58)	($61)	($119)	-5.5%
Medium Apartment	178.2%	($84)	($86)	($170)	-30.6%
Single Family	205.5%	($161)	($161)	($322)	-77.2%
Large Single Family	224.4%	($265)	($261)	($526)	-109.3%
AmerenCILCO					
Small Apartment	93.2%	($37)	($51)	($88)	7.1%
Medium Apartment	101.4%	($55)	($76)	($131)	-7.7%
Single Family	115.8%	($109)	($151)	($260)	-34.1%
Large Single Family	125.4%	($180)	($251)	($431)	-51.5%
AmerenIP					
Small Apartment	93.1%	($64)	($50)	($114)	-19.3%
Medium Apartment	109.7%	($90)	($74)	($164)	-34.4%
Single Family	128.5%	($169)	($145)	($314)	-67.0%
Large Single Family	155.9%	($275)	($239)	($514)	-88.3%

Ameren argues that the amount of rate relief its space-heating customers will receive in the fall of 2007 from S.B. 1592 will be sufficient to eliminate the need to implement the 07-0165 rate design changes prior to January 2008. (Ameren BOE at 2-6) Ameren also claims combining the 07-0165 rate design relief with Senate Bill 1592 relief in the last three months of 2007 would send inconsistent and unclear pricing signals to these customers.

Ameren also reiterates its argument that the dollars not collected in 2007 due to the early implementation of the revised rate design will be collected from Ameren Illinois customers later through Rider MV, thereby increasing rates paid in early 2008 in a counterproductive manner. (Ameren BOE at 4-5)

In its RBOE, **Staff** continues to recommend an October 1 implementation date for supply charges. (Staff RBOE at 4-5) In support of its position, Staff cites a concern that Senate Bill 1592 “has yet to be signed and the chance exists that the rate relief plan could undergo further changes unknown at this time.” (*Id*.)

Another Staff concern is that even if the legislation is signed in its current form, there are issues about the relationship between the rebates, some of which Ameren indicates are likely to be in the form of checks. Staff states that space heating customers will receive significant rebates from Ameren later on this year, based not just on usage between October and December but also on their earlier usage between January and May.

According to Staff, the fact that some rebates are likely to be provided in the form of separate checks from Ameren suggests that they will be considered by ratepayers to be separate from their actual utility bills; therefore, it would be reasonable to assume that ratepayers will not consider the rebates as an indicator that their rates are declining but rather as an effort to correct an imbalance that proved disruptive for Ameren customers in 2007. (Staff RBOE at 4-5)

Under these circumstances, Staff believes it would be reasonable for the Commission to conclude its rate redesign investigation in an expeditious manner by implementing the proposed rate changes on October 1st of this year.

D. Commission Analysis and Conclusions

As explained above, Ameren argues that the rate design changes approved in this docket should not be implemented prior to January, 2008. Among other things, Ameren claims an earlier implementation date as described in Staff’s two-step proposal would result in an under-recovery of revenues to be collected later through Rider MV, thereby increasing rates paid in early 2008 in a counterproductive manner.

Staff proposes a two-step process. On October 1, 2007, the rate design changes necessary to revise per-kWh charges would be reflected in revisions to supply charges. Beginning January 1, 2008, the changes proposed for delivery service charges would become effective and supply charges would be adjusted accordingly to ensure that the overall per-kWh charges remain the same.

In its BOE, Ameren argues that the amount of rate relief its space-heating customers will receive in the final three months of 2007 from Senate Bill 1592 will be sufficient to eliminate the need to implement the 07-0165 rate design changes prior to January 2008.

In its RBOE, Staff continues to recommend an October 1 implementation date for supply charges. Staff observes that Senate Bill 1592 has yet to be signed; thus, the relief plan is speculative. Another Staff concern is that even if the bill is signed in its current form, some of the relief will likely be in the form of checks which would not be viewed by customers as a reduction in their current bills.

Having reviewed the record, including the information and argument in the BOEs and late-filed Ameren Exhibit 4.1 regarding the impact of Senate Bill 1592, the Commission first observes that the determination of the most appropriate date for implementation of redesigned rates is a difficult decision. Both proposals present the Commission with alternatives that are generally reasonable under the circumstances. On balance, the Commission believes an implementation date of January 1, 2008 is the more appropriate of the two alternatives, subject to certain conditions.

A comparison of the rate relief estimates in Ameren Exhibit 4.1 indicates that in the last three months of 2007, the substantial rate relief for electric space-heating customers contemplated in S.B. 1592 would be generally similar to the amounts that would be generated by the 07-0165 rate design changes. This similarity is due in part to the variable credits in the S.B. 1592 plan that will expire at the end of 2007.

Furthermore, the relief provided in S.B. 1592 does not come at the expense of other customers. In contrast, the 07-0165 rate design relief for space-heating customers, while appropriate, does come at the expense of other customers who are being required to pick up the revenue shortfall. Thus, deferring implementation of re-designed rates until January 1, 2008 will avoid shifting that burden to other customers until it is actually necessary to do so. All things considered, the January 1, 2008 implementation date appears to be the better alternative.

As noted above, Staff raises a valid concern that since S.B. 1592 has not been signed, reliance on the S.B. 1592 relief plan in selecting an implementation date may be premature. Accordingly, the Commission finds that approval of the January 1, 2008 implementation date is subject to the condition that S.B. 1592 is signed into law, and that the amount, distribution and form of relief provided in the last three months of 2007 is similar to that represented by Ameren and shown in Ameren Exhibit 4.1 and Exhibit A to Ameren's BOE. Approval of the January 1, 2008 date is also subject to the condition that there is no lag or gap between the expiration of variable credits in S.B. 1592 and the commencement of the rate design relief approved in this docket.

As also indicated above, another Staff concern is that even if the bill is signed in its current form, some of the relief will likely be in the form of checks which would not be viewed by customers as a reduction in their current bills. While Staff has identified a relevant issue, it appears that S.B. 1592 is actually intended to provide relief primarily in the form of credits, not checks.

In conclusion, an implementation date of January 1, 2008 is approved, subject to the conditions described above. This approval is also subject to determinations made elsewhere in this order regarding the effective date of the rate limiter applicable to Rates DS-3 and DS-4.

In the event any of these conditions are not met, the implementation dates proposed by Staff shall be utilized in order to provide an adequate level of rate protection for those electric space-heating customers who were most severely impacted by 2007 rates.

VIII. PROPOSED DISCONTINUANCE OF RATE PRISM AND RATE MITIGATION MECHANISM

Pursuant to the Ameren Procurement Order in consolidated Dockets 05-0160, 05-0161 and 05-0162, the results of the blended segments of the 2006 auction were entered into series of formulae, sometimes known as the “prism” or “rate prism.” The prism is designed to allocate fixed price generation supply or BGS-FP costs to each participating customer class and translate those charges into retail supply rates for customers.

In addition, as explained above, the Procurement Order approved a Staff-proposed rate mitigation mechanism. Generally speaking, that plan limited increases for individual customer classes in the first BGS-FP auction to a maximum of 20%; however, if the overall increase in the BGS-FP auction were greater than 13.33%, the maximum increase for an individual class would be 150% of the BGS-FP auction group’s average increase. The rate mitigation plan was intended to mitigate large increases in the bills of customers in any given rate class to which the results of the blended auction segment is applied, and the plan is still in effect.

A. Staff’s Position

In the instant proceeding, Staff urges the Commission to decide in this proceeding the process for determining supply charges that will go into effect on June 1, 2008. Staff indicates that the current process for supply charges is that a supply auction for one third of the bundled service supply will likely occur in late January or early February 2008. Staff says new rates that result from that auction will then become effective June 1, 2008.

According to Staff, when the results of the early 2008 auction are known, they will be entered into the formula, commonly known as the “prism," which will automatically generate supply charges for each participating customer class. Under the approach adopted by the Commission, Staff says the prism used to translate supply costs into rates for customer classes will be updated with more recent information on forward prices and customer usage levels. (Staff Initial Brief at 37)

In Staff's view, the key issue for supply charges that take effect June 1, 2008 will be bill impacts. Staff asserts that since the implementation of post-2006 rates on January 2, 2007, bill impacts have emerged as the overriding concern for electricity ratepayers in Illinois. Given the current concerns, Staff believes this ratemaking investigation process must endeavor to prevent inordinate bill impacts on a going-forward basis. According to Staff, while cost of service has been a longstanding concern for ratemaking in Illinois, ratemaking has reached the point today where bill impacts have become the primary consideration. (Staff Initial Brief at 37-38)

Staff believes the design of supply rates based on the early 2008 auction should focus on bill impacts. The charges, Staff argues, should be set to ensure that no customer group, or groups, receives an inordinate increase. Staff says the current process to mitigate potential bill impacts arising from the early 2008 auction is the mitigation plan adopted by the Commission for the first auction in September 2006. That plan, which seeks to gradually bring customer supply charges in line with the underlying costs over the long term, limited increases for individual classes in the first BGS auction to a maximum of 20% or 150% of the BGS-FP auction group's average increase. According to Staff, those same maximums remain in place and, absent any change to its calculations, will limit potential bill increases that will take effect on June 1, 2008, as a result of the early 2008 auction. (Staff Initial Brief at 38)

Staff is concerned that the continued use of the 20% and 150% maximums embodied in the Commission's mitigation mechanism have not been sufficiently effective to prevent Ameren customers from receiving unacceptable bill increases under the auction process. Staff says this raises the possibility that the next auction to be held in early 2008 could produce a new round of unacceptable bill impacts for Ameren customers. According to Staff, these adverse bill impacts could occur even though the auction will reset supply costs for only one-third of bundled service load. Staff says that once the new supply costs are run through the prism, some customer classes could be facing cost-based charges that differ significantly from their current charges.

Staff emphasizes that the mitigation mechanism limits increases for customer classes to a maximum of (a) 20% or (b) 150% of the BGS-FP auction group's average increase. Thus, even if the next auction produces no increase or even a reduction in supply costs, Staff asserts that could still trigger individual class increases of as much as 20%. Staff claims this could have adverse bill impact implications for classes such as residential space-heating customers whose cost of service exceeds the rates they currently pay. (Staff Initial Brief at 38-39)

Staff does not consider this further movement towards costs in 2008 to be acceptable. Staff says residential space heat customers received annual increases ranging from 61% to 80% in the transition to post-2006 rates. Another increase of 20% with flat or even declining supply costs, Staff argues, would only exacerbate these significant bill impacts. Staff states that under this scenario, the bill impacts for this customer class could be considered inordinate. (Staff Initial Brief at 39)

In Staff's view, adverse bill impacts can be best avoided by eliminating the role of the rate prism in the upcoming auction. Instead, Staff suggests that the Commission consider passing along any changes to supply charges arising from the early 2008 auction by revising all existing supply charges on an across-the-board basis to recover revenues associated with the next set of auction results. For example, if the next auction raises supply costs by ten percent, Staff proposes that each supply charge prior to the auction would be raised by the same ten percent. Similarly, if the next auction reduces overall supply costs for the BGS-FP auction by ten percent, the proposal would reduce all existing supply charges under the auction by that same ten percent. (Staff Initial Brief at 39)

According to Staff, this approach limits the potential inordinate bill impacts which could emanate from the early 2008 auction. Staff says an across-the-board increase means that the supply charges currently paid by bundled service ratepayers will not change relative to each other. Staff claims the problem of bill impacts that has arisen since January 2, 2007 has been exacerbated by the unequal increases for individual customer groups. If the prism is run again for the early 2008 auction, Staff asserts there is no assurance of how supply costs will be allocated among the customer classes. Staff further maintains that implementation of the Commission mitigation mechanism could produce sizeable increases for individual customer classes. (Staff Initial Brief at 39-40)

Staff says it would be possible to revise the mitigation mechanism to narrow the range of increases resulting for customer classes. Staff suggests this would reduce, but not eliminate, the potential for rate classes to receive inordinate bill increases. While a tighter range of increases constitutes a step forward from a bill impacts perspective, Staff believes that the approach in the next auction that best addresses bill impacts concerns will be to revise existing supply charges up or down on an across-the-board basis to meet the supply costs that emerge from the upcoming 2008 auction. (Staff Initial Brief at 40)

Staff asserts that a decision to change supply charges on an across-the-board basis should have a minimal impact on supplier decisions. The across-the-board approach, Staff claims, would maintain the relative relationships between supply charges that currently exist. Staff contends that suppliers could easily determine what the relative supply charges for retail customers will be that emerge from the next auction. Staff says the only issue for suppliers concerns the absolute levels of supply charges that will be based on the auction results. (Staff Initial Brief at 40-41)

Staff acknowledges substituting an across-the-board increase for the rate prism deviates from cost principles. Nevertheless, Staff believes the proposal is reasonable at this juncture because ratepayers across Illinois are dealing with negative bill impacts associated with the implementation of cost-based post-2006 rates. (Staff Initial Brief at 41)

Staff suggests that at a future date, when concerns about bill impacts have receded, it will be essential for the Commission to redirect its efforts back to basing rates on cost principles. Staff believes that will best ensure efficiency and fairness in the electricity market over the long run. However, over the shorter term, Staff insists the most important objective is to develop a set of rates that will mitigate bill impacts for bundled service Ameren ratepayers. (Staff Initial Brief at 41)

Staff argues that CNE's concern, summarized below, about the adverse impact on competition, fails to consider the larger issue which is the extraordinary impact of current rates on Ameren ratepayers, particularly space-heating customers. Staff believes the concern expressed by customers has been unprecedented and the need to address those concerns is critical. If the solution impacts suppliers, Staff says that is a necessary side-effect to solving the problem. (Staff Initial Brief at 41-42)

According to Staff, CNE fails to demonstrate how competitors or energy-efficiency will be adversely affected by adoption of the Staff proposal. Staff says CNE claims that suppliers are basing their plans on the results of the rate prism, but how the prism will work in the 2008 auction and what supply charges will result for customers is unknown today. In Staff's view, it cannot be said what the impact will be on suppliers, competitors or conservation from the application of the rate prism in next year's auction. If the first auction is any guide, the full effects of the rate prism may not be understood until after the auction is conducted, Staff claims. (Staff Initial Brief at 42)

Staff insists that the overriding concern is that application of the rate prism in next year's auction does not produce any severe bill impacts as resulted from the first auction. Staff argues that the only way to avoid such a scenario is to bypass the rate prism and approve its proposal to increase supply charges on an across-the-board basis in next year's auction. (Staff Initial Brief at 42)

In Staff's view, the Commission, by initiating this proceeding is signaling its intention to revise the prism results in the immediate future. Staff argues that the Commission has clearly decided that addressing unreasonable bill impacts for ratepayers takes precedence over not clearly articulated supplier concerns about changes to the prism. Staff asserts that its proposal would only serve to extend the changes adopted by the Commission in this proceeding through the next supply auction. Staff claims CNE has failed to demonstrate that this proposal to address a significant bill impacts problem would disadvantage suppliers in any way. Staff recommends that CNE's criticism be rejected and the Staff proposal for across-the-board changes in supply charges resulting from the next auction be adopted. (Staff Reply Brief at 9)

In its reply brief, Staff indicates that Ameren objects to the Staff's proposal to discard the rate prism in the next auction in favor of an across-the-board, equal percentage increase or decrease in supply charges for all classes in the MV auction for BGS-3 and BGS-5 customers. Staff says Ameren argues that supply charges for these customers should be based on the current rate prism approach and that supply charge changes are not being contemplated in this case. Staff adds that Ameren claims BGS-3 prices can influence customer decisions whether to take bundled or unbundled service and the most efficient approach under the circumstances is to employ more market-based prices developed through the prism. Finally, Staff says Ameren argues that its proposal should not have a significant relationship on the overall annual relationship between BGS-1, BGS-2 and BGS-3 prices. (Staff Reply Brief at 6-7, citing Ameren Initial Brief at 33-34)

According to Staff, Ameren's counter-proposal adds an unnecessary element of uncertainty to the next phase of the rate design process. In Staff's view, future changes in supply charges for BGS-1 and BGS-2 relative to BGS-3 and BGS-5 are not known now and will only be revealed after this proceeding is over. Staff says that if Ameren's proposal were to produce any significant bill impacts for an individual rate class such as BGS-3 or BGS-5 there will be no recourse before those rates take effect. Staff believes the wisest approach at this point is to adopt a cautious and safe strategy that protects against a recurrence of inordinate bill impacts for any customer group. Staff recommends that the Commission adopt what it describes as the simple, straightforward and transparent approach of across-the-board changes to current supply charges to generate the necessary revenues resulting from the next application of the auction. (Staff Reply Brief at 34)

Staff also argues that Senate Bill 1592 raises fundamental questions about how power will be procured in the future, which, in turn, raises questions about how the associated costs will be allocated among customers. In this situation, with a lack of information about how the future procurement process will unfold, Staff believes it would be most reasonable to adopt Staff's across-the-board approach to future changes in supply costs. (Staff SRBOE at 2)

B. Ameren's Position

As noted above, Staff proposes to adjust electric supply prices on an across-the-board basis to meet the supply costs that emerge from the upcoming 2008 auction. Ameren agrees the approach has merit for BGS-1 (residential) and BGS-2 (small general service), but expressed concerns if the approach is also meant to apply to BGS-3 (general service) and BGS-5 (lighting service). According to Ameren, Staff appears to propose that the retail rate prism will no longer be used as a mechanism to adjust prices for any of the BGS-FP customer classes.

In Ameren's view, since the parties are proposing to adjust only BGS-1 and BGS-2 rates in this case, it follows that adjustments to changes to supply costs that arise from replacing supply contracts would be limited to only BGS-1 and BGS-2. Ameren believes that rates for BGS-3 and BGS-5 should be allowed to take effect as originally designed (per the existing tariff). (Ameren Initial Brief at 32-33)

Ameren asserts that retail supply charges for BGS-3 and BGS-5 should be allowed to change by amounts other than a uniform up or down amount. Ameren argues that changes to BGS-3 and BGS-5 are not proposed in this case and BGS-3 prices can directly influence a customer's decision to switch to a third-party supplier. Ameren claims that about one third of DS-3 customers are served by third-party suppliers, and thus do not take service under BGS-3. Ameren contends that providing such customers with a set of prices that is reflective of more current market factors (and thus the market) allows these customers to make efficient switching decisions. Ameren says, for example, the current pricing structure contains higher non-summer prices than summer prices but a future update to the prism could result in a shift back to lower non-summer prices compared to summer prices.

Ameren states that retail prices that no longer reflect market-based seasonal price differences could encourage customers with proportionately high summer usage to return to (or stay on) BGS-3, and customers with proportionately high winter usage to leave for (or remain with) a third-party supplier. In the end, Ameren says BGS-3 customers may provide less than anticipated revenue, which would fall back to the monthly over/under calculation applicable to all BGS-FP customers – a group dominated by residential and small general service customers. In other words, not updating BGS-3 prices may increase costs to BGS-1 and BGS-2 customers, all other things constant. (Ameren Initial Brief at 33-34; Reply Brief at 10-11)

Ameren says the overall annual relationship between BGS-1, BGS-2, and BGS-3 prices is unlikely to significantly change over time. Ameren states that if BGS-3 prices increase by 5% annually, BGS-1 and BGS-2 annual prices will also likely increase by a similar amount. For this to not be the case, Ameren claims a group's usage characteristics would have to undergo a fundamental transformation. Ameren states that DS/BGS-3 customers shifting a significant portion of their usage to the summer on-peak period would represent a fundamental change. According to Ameren, such a change is unlikely to have occurred since load information was last collected. Ameren says that as presently designed, the auction price retail translation mechanism within Rider MV uses load information for the entire customer population for a customer class to shape retail prices, not just those served on BGS rates. (Ameren Initial Brief at 34; Reply Brief at 11)

In its RBOE, Ameren argues that elimination of the rate prism and the rate mitigation formula would be premature, According to Ameren, changes resulting from the enactment of SB 1592 are on the horizon, and it is simply premature to make changes to the BGS rate prism until that legislation is acted upon and the significant regulatory changes it calls for are assessed. (Ameren RBOE at 1-4)

C. CNE's Position

CNE says it is not unsympathetic to the motivations upon which Staff predicates its across-the-board application. CNE states that certain ratepayers are experiencing financial difficulties, and the Staff is seeking to offer relief to the broadest number of customers as soon as possible. Despite these laudable intentions, however, CNE asserts that Staff's proposed alterations constitute a step backwards on the road toward the development of competition and run counter to the manner in which retail rates have historically been established in Illinois.

CNE also argues that the Commission should not force additional charges onto other DS-3 and DS-4 customers because the record does not allow the Commission to determine the overall bill impact to delivery service customers forced to subsidize bill impact mitigation for blended customers. CNE says the Commission does not know the impact in overall bills for delivery service customers and, therefore, should not blindly push additional non-cost based costs onto them. (CNE Initial Brief at 10-11; Reply Brief at 6-7)

According to CNE, Ameren's rate prism was developed and fully litigated in Dockets 05-0160, 05-0161 and 05-0162, and wholesale suppliers, Ameren, RESs, and customers predicated their business decisions upon the assumptions built into the prism. CNE asserts this is especially true for wholesale bidders who won 29-month and 41-month contracts for the blended products. CNE claims that alteration or abandonment of the prism would change the risks inherent to serving tranches that suppliers won under very different assumptions. To alter or abandon the prism now, CNE argues, would be unfair to wholesale suppliers who would now serve customers under different terms than those on which they bid and won tranches. CNE maintains that to shift course now, and abandon Ameren's prism, could produce negative consequences to the market and will run counter to the development of robust and liquid competitive wholesale and retail markets. (CNE Initial Brief at 11; Reply Brief at 7)

CNE also asserts that alteration or abandonment of the prism may alter customers' decisions to either stay on Ameren's default service or decide to take service from a RES. CNE claims that Staff's recommendation potentially disrupts longer-term contracts that customers executed with RES as it fundamentally changes the assumptions upon which they relied -- assumptions based on the Commission's previous decision. In CNE's view, Staff's proposal also fails to create a platform to promote the sustained interest in conservation, efficiency and demand-response. (CNE Initial Brief at 12; Reply Brief at 7)

CNE urges the Commission to be mindful to ensure that actions undertaken here do not adversely affect the continuing evolution of electric competition in Illinois. CNE says the success of the competitive retail market will be a function of the Commission's ability to establish rates that accurately track the all-in costs of electricity supply to Ameren's retail customers. CNE refutes Staff's assertion that its proposed rates represent a "meaningful step forward." CNE claims that Staff's proposal would distort customer decision-making, and thereby discourage customers from managing their energy use as wisely as possible. (CNE Initial Brief at 12)

CNE urges the Commission to reject Staff's proposal and to retain Ameren's rate prism.

In its reply brief, CNE argues that Staff's proposal to modify tariffs related to Rider MV and the Auction process are beyond the scope of the instant proceeding. CNE says Staff's proposal to modify an aspect of the Auction process and the tariffs associated with the Auction are better addressed in Docket 06-0800. According to CNE, Staff had the opportunity to address this issue in Docket No. 06-0800 but failed to do so. (CNE Reply Brief at 7)

D. Commission Analysis and Conclusions

Pursuant to the Ameren Procurement Order in consolidated Dockets 05-0160, 05-0161 and 05-0162, the results of the blended segments of the 2006 auction were entered into series of formulae, sometimes known as the "prism" or "rate prism." The prism is designed to allocate fixed price generation supply or BGS-FP costs to each participating customer class and translate those charges into retail supply rates for customers.

In addition, the Procurement Order approved a Staff-proposed rate mitigation mechanism. Generally speaking, that plan limited increases for individual customer classes in the first BGS-FP auction to a maximum of 20%; however, if the overall increase in the BGS-FP auction were greater than 13.33%, the maximum increase for an individual class would be 150% of the BGS-FP auction group's average increase. The rate mitigation plan was intended to mitigate large increases in the bills of customers in any given rate class to which the results of the blended auction segment is applied, and the plan is still in effect.

In the instant docket, Staff proposes to eliminate the role of the rate prism and the rate mitigation formula in the 2008 Auction. Instead, Staff would apply the same percentage increase or decrease to each customer class on an across-the-board basis in order to avoid disproportionate impacts on individual classes. Staff also argues that its across-the-board approach is appropriate even if S.B. 1592 becomes law.

Ameren does not oppose Staff's proposal for residential (BGS-1) and small non-residential (BGS-2) customers. However, Ameren objects to it for larger customer classes, and Constellation NewEnergy opposes Staff's proposal; they claim it may adversely affect larger customers' ability to make efficient switching decisions. CNE also argues that this issue is more appropriately addressed in other dockets. In its RBOE, Ameren further argues that with SB 1592 changes on the horizon, it is premature to make changes to the BGS rate prism until that legislation is acted upon and the regulatory changes it calls for are assessed.

Having reviewed the record, the Commission finds that adoption of Staff's proposal to eliminate the role of the rate prism and the rate mitigation formula, with respect to the procurement of supply in the 2008 Auction process, would be premature.

Departure from cost-based class revenue allocations and intraclass rates in favor of an across-the-board increase is a significant action; whether an action of this magnitude will be necessary to avoid disproportionate rate impacts resulting from future procurement of supply is not known at this time. To the extent future procurement prices warrant further consideration of this proposal, it may be revisited at that time. For that matter, the uncertain status of the law relating to the procurement of power and energy in 2008 and thereafter underscores the Commission's belief that it may be necessary to revisit the rate prism and rate mitigation issues in some appropriate future forum.

Accordingly, the Commission concludes that Staff's proposal to eliminate the rate prism will not be adopted at this time. Similarly, what role the rate prism may play with respect to alternative supply procurement methods is an issue not reached by the Commission in this Order.

IX. FINDINGS AND ORDERING PARAGRAPHS

Having given due consideration to the entire record, the Commission is of the opinion and finds that:

(1) Central Illinois Light Company, Central Illinois Public Service Company and Illinois Power Company are Illinois corporations engaged in the retail sale and delivery of electricity to the public in Illinois; each is a "public utility" as defined in Section 3-105 of the Public Utilities Act and each is an "electric utility" as defined in Section 16-102 of the Public Utilities Act;

(2) the Commission has jurisdiction over the parties and the subject matter of this proceeding;

(3) the facts recited and conclusions reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact and/or conclusions of law;

(4) the rate design and rates for the Ameren Companies shall be modified in accordance with the findings and determination made in the prefatory portion of this Order;

(5) new tariff sheets reflecting and implementing the findings and determinations made herein shall be filed by Ameren Companies within 30 days after the date of this Order;

(6) except as modified herein, the findings and determinations made in the Commission's Orders in the Procurement and Delivery Service Dockets shall remain in effect.

IT IS THEREFORE ORDERED that rate design and rates for the Ameren Companies shall be modified in the manner found appropriate above, and these modifications shall be implemented in the manner described above.

IT IS FURTHER ORDERED that any objections or motions not otherwise specifically ruled upon are hereby disposed of in a manner consistent with the ultimate conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 29th day of August, 2007.

(SIGNED) CHARLES E. BOX

Chairman